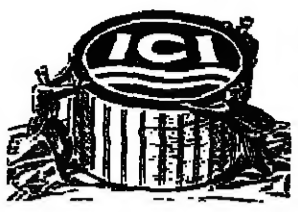

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FINANCIAL TIMES

Europe's Business Newspaper — MONDAY FEBRUARY 22 1993 — D8523A

UN aid to resume as trucks reach Bosnian Moslems

The UN refugee agency is to resume full operations in Bosnia after receiving assurances that the three warring factions would no longer block aid. The decision came hours after a relief convoy reached Zepa, a Moslem stronghold in eastern Bosnia, which had been blocked for days by Bosnian Serb commanders. Page 2

Rocard plan wins support: Most French Socialists and ecologists support the proposals of Michel Rocard, former prime minister, for the creation of a new centre-left alliance, according to the latest opinion poll. Page 14

CS First Boston, US global investment bank, earned pre-tax profits of $277m, up from $266m in 1991, but suffered an unusually heavy tax burden, bringing net profits down to $175m. Page 15

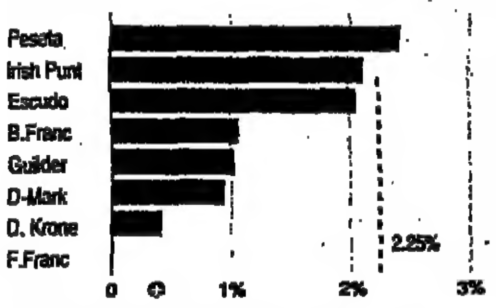
Ukraine begins sell-off: The first of Ukraine's privatisation auctions took place at the weekend, resulting in the sale of 17 small restaurants, shops and businesses in the western city of Lvov. The state still owns 94 per cent of the economy. Page 14

RWE, one of Germany's largest industrial groups, saw net profits slip fractionally in the six months to December to DM395m ($241m) from DM398m a year earlier. Page 17

Warning to German car industry: German carmakers face five bleak years, according to David Herman, new chairman of Adam Opel, who warned that business confidence was near postwar lows. Page 14

European Monetary System: Although the French franc remains at the bottom of the exchange rate mechanism grid, its performance continues to be stable. The French currency is comfortably above its floor against the D-Mark and concerns of an imminent devaluation have eased. There has been some pressure on the Spanish peseta, but this has been countered by intervention from Spain's central bank. Attention is on the D-Mark and its relationship with the US dollar as some economists interpret the recent fall in German money supply as signalling a possible early cut in interest rates. However, many believe the 2.3 per cent slide in M3 supply to be the by-product of a technical rebasing. Currencies, Page 29

EMS: Grid February 19, 1993



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. The Spanish peseta and Portuguese escudo operate with 6 per cent fluctuation bands.

UN to send inspectors to Iraq: The UN announced a surprise weapons inspection visit to Iraq, saying experts would fly in at dawn today.

ANC shift on sanctions: The African National Congress has relaxed its policy on sanctions against South Africa but says they should remain until a date has been set for multiracial elections. Page 6

Pinault, French retail group, is considering the sale of Prisunic, one of France's largest store chains, as part of efforts to raise capital after its takeover of the Au Printemps stores group. Page 17

US Middle East tour: Palestinians expelled by Israel have accused US secretary of state Warren Christopher of ignoring their plight during his tour of the Middle East which is aimed at reviving regional peace talks. Page 5

Elkem, troubled Norwegian light metals producer, revealed sharply increased net losses in 1992 – to NKr616m ($89m) from NKr443m – and said it would omit its dividend for the third year. Page 17

IG Metall warned on pay demands: IG Metall, German engineering union, will cause further unemployment by insisting on high wage rises, the president of the engineering association warned. Page 2

UK is 'Europe's bargain basement': Following the devaluation of sterling, British food, drink and consumer products are 17 per cent cheaper than the average in 14 European countries, a survey has found. Sweden is the most expensive European country. Page 7

Air Canada's 1992 net losses rose to C$454m (US$361m), compared with losses of C$218m the year before, largely because of heavy fare discounting and restructuring charges. Page 17

Metsä-Serla, Finnish forestry group, cut losses after financial items to FM290m ($49m) in 1992, less than half the previous year's deficit, thanks to cost-cutting, improved efficiency and the falling markka. There will again be no dividend. Page 17

BSM Group, owner of the British School of Motoring, is in advanced discussions to obtain a listing on the London stock exchange later this year. The value of the share offering may be about £50m ($70m). Page 15

Steel industry may have to lose 100,000 jobs

By Quentin Peel in Düsseldorf

WESTERN EUROPE'S steel industry may be forced to cut more than 100,000 jobs in its latest market crisis, more than double the estimate of the European Commission, according to the German steel federation.

Social spending to ease the burden of redundancies would have to be substantially increased, and protection from cheap eastern European imports ensured to enable the industry to restructure, Mr Ruprecht Vondran, president of the federation, said in an interview.

At the same time, the head of Germany's second largest steel producer, Krupp-Hoesch, said he believed it was "perfectly realistic" to consider quitting the steel industry altogether, if "radical measures" were not taken to meet the crisis.

Mr Gerhard Cromme, chief executive of Fried. Krupp AG Hoesch-Krupp, which is in the process of merging the steel-making operations of Krupp Stahl and Hoesch Stahl, told Der Spiegel magazine the country's leading steelmakers must co-operate to survive.

He refused to predict which German steel companies would outlive the latest crisis, but said that even the three strongest – Thyssen, Krupp-Hoesch and Preussag – would have long-term survival prospects only if "all the opportunities are used for the best possible co-operation".

The grim forecast for the likely job losses in the entire European industry was made by Mr Vondran in a plea to Brussels to reconsider the funds available for social programmes.

He said the European Commission's plan to spend Ecu240m ($283m) to ease the mass redundancies would be inadequate, with Germany alone facing job losses of 35,000-40,000 in both halves of the country.

At the same time he urged a stern regime to limit state subsidies to loss-making producers, especially in Italy and Spain, and restrictions on cheap steel imports from eastern Europe.

Mr Vondran rejected the Commission's proposal for agreed minimum prices for east European steel imports, to prevent steel dumping, believing it would be ineffective. He suggested an import ceiling on the most sensitive steel products of 1991 import levels, plus 20 per cent.

EC industry ministers meet in Brussels this week when a rescue package will be presented by the Commission, calling for capacity cuts of up to 30m tonnes, in exchange for social spending, and some form of protection from imports.

The mood in the German industry was graphically underlined by Mr Cromme, whose company has already announced the probable closure of its plants in Siegen and Hagen, making steel sections, and the inevitable closure of at least one integrated steel plant in either Dortmund of Duisburg-Rheinhausen.

Asked in his interview whether the idea of pulling out of steel production altogether was "thinkable" for Krupp-Hoesch, he said: "That is a perfectly realistic idea. I do hope, however, that we will be able to avoid any such step by taking a series of radical measures."

Steel crisis plan, Page 3

Italian PM reinforces government by adding some political heavyweights

Amato wins reprieve with cabinet reshuffle

By Haig Simonian in Milan

ITALY'S shaky eight-month-old government yesterday survived its biggest political test with a cabinet reshuffle following the resignations on Friday of two senior ministers over the growing political corruption scandal.

However, the skill and patience of prime minister Giuliano Amato were stretched to the limit. Mr Amato met fellow ministers in his four-party coalition for four hours before agreement was reached on the new cabinet.

The prime minister used the resignations of Mr Giovanni Goria and Mr Francesco De Lorenzo, the finance and health ministers respectively, to reinforce his government's standing by adding some political heavyweights.

However, Mr Amato failed in his ambition to broaden the government's political base because of the opposition of parties, such as the Republicans, to join a government scarred by the corruption investigations.

Mr Amato hopes his swift action will restore calm to financial markets today after the frantic scenes following Friday's resignations. The lira, which had been losing ground against leading currencies throughout last week, slid to L957 against the D-Mark, while government bond prices tumbled.

The reshuffle probably means Mr Amato's government has won a reprieve until new electoral laws, under discussion by a special parliamentary committee, come into operation.

The laws, which should increase the chances of stable parliamentary majorities, are also subject to popular referendums, which could be held as early as April.

Mr Nino Andreatta, a senior Christian Democrat and former minister, takes over as budget minister from Mr Franco Reviglio, the Socialist who is moving to the finance portfolio vacated by Mr Goria.

Meanwhile, Mr Raffaele Costa, the former minister for regional policy and European Community affairs, steps up to become health minister, while his previous job goes to Mr Gianfranco Ciaurro.

Negotiations yesterday were protracted partly because of the surprise refusal of Mr Giuseppe Guarino, the industry minister, to step down.

Mr Amato had hoped to remove Mr Guarino because of his refusal to go along with ambitious privatisation plans. Instead, Mr Amato appointed Mr Paolo Baratta, his planned successor, to a new ministerial job, with responsibilities for privatisation formerly held by the industry minister.

Separately, Mr Carlo Ripa di Meana, the environment minister and former European commissioner, said he was leaving the Socialist party for the Democratic Alliance being formed by some politicians and intellectuals.

The corruption scandal continued to spread at the weekend. Mr Antonio Cariglia, chairman of the small Social Democratic party which forms part of the governing coalition, was informed by magistrates that he is under investigation over alleged kickbacks linked to the new port of Manfredonia.

Last week, Mr Paolo Cirino Pomicino, a senior Christian Democrat and minister in the previous government, was advised he was under investigation on similar grounds.

Meanwhile investigations in Milan into the Enel state electricity generating group continued with the arrest of a former Republican MP. Separately, Mr Giacomo Clerici, the elderly chairman of the big CoeClerici shipping group, admitted to magistrates that his company and a shipping subsidiary of the Ferruzzi group had paid L1bn ($647,000) to the Christian Democrat and Socialist parties in return for shipping contracts for oil for Enel power stations.

Page 3

■ Milan shows no mercy on kickbacks

Italy's new line-up: (from left) Rafaele Costa, Franco Reviglio, Nino Andreatta, Paolo Baratta and Gianfranco Ciaurro during the swearing-in ceremony yesterday

UK defends stance on Leyland Daf rescue

By Ronald van de Krol in Amsterdam and Richard Donkin and Ralph Atkins in London

MR Michael Heseltine, the UK trade and industry secretary, defended his decision to put his faith in the receivers of Leyland Daf yesterday after the Belgian and Dutch governments agreed a rescue package for the parent truck company that excluded its three British plants.

The resurrection of the truck-maker as a new slimmed-down company backed by fresh equity and injections of capital from the Belgian and Dutch governments contrasted with Mr Heseltine's refusal to pledge financial support for the company's UK operations. "I don't believe that intervening with money produces long-term solutions," he said.

As union leaders and opposition party members criticised his stance, Mr Heseltine appeared confident that what he called "the market solution" led by administrative receivers would secure a future for the remaining British factories.

The receivers of Leyland Daf said inclusion of the British plant in the new company would have offered a "fast track solution" for the UK subsidiary. They would now concentrate on talks with potential purchasers.

Talks should be strengthened, however, by potential outlets for

Continued on Page 14

Dutch rescue keeps Daf on the road, Page 12

US anti-dumping study likely to provoke row

By David Dodwell in London

A WIDE study of the possible cost to the US economy of anti-dumping actions, commissioned as one of the final acts of Mrs Carla Hills, former US trade representative, appears set to provoke a storm of controversy among protected US industries, and embarrassment for the new Clinton administration.

The demand for the study was described by one senior US trade official as "potentially nuclear" in its implications, pitching powerful domestic industries such as cars, steel and textiles against US exporters and consumers, all of whom have to pay higher prices because of such duties.

It could embarrass President Bill Clinton, who is under strong pressure from domestic industry lobbies to use dumping laws fully to protect US companies against "unfair competition".

Mrs Hills said in the letter of instruction to the International Trade Commission, the administration's main trade protection body, that she had called for the study because of the "considerable public debate" stirred recently over the economic effects of anti-dumping duties and linked import restraints.

Studies by the World Bank, and in the US by the Heritage Foundation and the Brookings Institution, have concluded that anti-dumping actions – duties and fines against alleged sales of products at below-cost prices – represent a creeping protectionism which raises costs and hurts US competitiveness rather than helping the US economy.

Adding to possible controversy between advocates and opponents of dumping actions, the letter was sent just five days before Mrs Hills stepped down from office a month ago, and was not received by Mr Don Newquist, chairman of the ITC, until January 25 – five days after she was succeeded by Mr Mickey Kantor, Mr Clinton's appointee.

To avoid being countermanded by Mr Kantor, ITC commissioners have asked him to confirm that he is willing to endorse Mrs Hills' instructions. He is expected to do so, but will be under pressure to ensure the study also takes note of domestic industries' arguments on the supposed advantages of dumping laws.

Users of products subject to dumping duties often complain they result in higher costs, making it harder to remain internationally competitive. Controversy has grown recently following the US imposition of dumping duties on steel exporters from 19 countries, and threats to impose them on motor vehicle imports.

Mrs Hills called for a study of "the net economic welfare of the US" arising from dumping and countervailing duty actions. She required an examination of effects on:

- Industries which have petitioned for protection;
- The income and employment of US workers;
- US consumers – from shoppers to companies that use affected products as inputs to other production;
- US parts and components producers.

The study must be finished by January 1995, and is among the most ambitious ever demanded of the ITC.

Austria	Sch30	Greece	Dr300	Lux	LFr60	Qatar	QR12.00		
Bahrain	Din1.250	Hungary	Ft182	Malta	Lm0.60	S Arabia	SR11		
Belgium	BFr60	Iceland	IKr180	Morocco	MDh13	Singapore	S$4.10		
Bulgaria	Lw25.00	India	Rs40	Neth	Fl 3.75	Slovak Rp	Kcs45		
Cyprus	C£1.00	Indonesia	Rp3800	Nigeria	Naira20	Spain	Pta200		
Czech Rp	Kcs45	Israel	Shk5.90	Norway	NKr16.00	Sweden	SKr15		
Denmark	DKr15	Italy	L2700	Oman	OR1.50	Switz	SFr3.20		
Egypt	E£4.50	Jordan	JD1.50	Pakistan	Rs25	Syria	S£50.00		
Finland	FM12	Korea	Won 2500	Philippines	Pso45	Thailand	Bht50		
France	FFr8.50	Kuwait	Fils 600	Poland	Zl 22,000	Tunisia	Din1.250		
Germany	DM3.30	Lebanon	US$1.25	Portugal	Es215	Turkey	L7000	UAE	Dh11.00

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Decision comes after 10-truck relief convoy reaches Moslem village cut off by Serbs

UN refugee agency relents on Bosnia aid

By Laura Silber in Belgrade and Reuter in Geneva

THE United Nations High Commissioner for Refugees yesterday said full operations would be resumed in Bosnia-Hercegovina following assurances that the three warring factions would no longer block aid convoys or distribution.

A statement from Ms Sadako Ogata's office said she had agreed with Mr Boutros Boutros Ghali, UN secretary-general, that operations would resume "as soon as possible, perhaps as early as Monday".

The decision came hours after a 10-truck convoy carrying 72 tonnes of aid reached Zepa, a Moslem stronghold in eastern Bosnia. Bosnian Serb commanders had given way to international pressure for the delivery of emergency aid to Moslem enclaves besieged by Serb forces.

The commanders said the convoy, stranded for five days, could pass at its own risk. It crawled along a winding snow-covered route, which was reported to have been mined, to reach Zepa yesterday afternoon.

It carried wheat flour and family parcels and was only the second UNHCR convoy to reach the village, whose population has been swollen by refugees fleeing Serb "ethnic cleansing" in the region, since the war erupted 10 months ago.

The successful mission follows a week of confusion in the international community over how to distribute aid in Bosnia.

In the hope of winning Serb permission for aid to reach government strongholds in eastern Bosnia, Mr Alija Izetbegovic, the Moslem president of Bosnia, announced a ceasefire at the weekend.

The announcement followed reports of an advance by Serb forces, besieging Sarajevo on the western edge of the Bosnian capital.

The convoy reached Zepa after US President Bill Clinton said he was considering making air drops to the 100,000 Moslems trapped by the Serb stranglehold of eastern Bosnia. But UN commanders in Bosnia yesterday were sceptical about the idea. It raised many problems, including securing the co-operation of all parties to the conflict.

Meanwhile, in the poor former Yugoslav republic of Macedonia, 300 policemen fired tear gas and batons to disperse hundreds of Macedonians gathered in Skopje, the capital, to protest against the building of houses to settle Moslem refugees from the Bosnian war.

Several people were injured in the clashes, which began on Saturday.

An old man hunts for food among one of the many rubbish dumps appearing on Sarajevo's streets

Managers are left behind on way to market

Russian management is ill-equipped for the move away from a command economy to capitalism, reports Leyla Boulton

A YEAR after the launch of frenetic economic reform, the Russian government and western aid donors have yet to tackle a desperate need for management skills to help the state-owned economy switch to a market system.

The problem was officially recognised for the first time by Mr Boris Fyodorov, the new deputy prime minister for economics, when he said last month that inefficient managers of state-owned enterprises would have to be "helped" to change their ways or go.

Until now the government, focusing on price liberalisation and privatisation plans, has simply hectored managers for not adjusting to new conditions and attacked the central bank for pumping credits into inefficient enterprises. Apart from frequently changing the rules of the game on tax and trading, it has also failed to remove some of the old restrictions which prevent the Russian manager from acting like a western chief executive.

Only a minority of managers, long used to receiving orders from above, have tried to learn the ways of their capitalist counterparts. Others, motivated by ignorance or fear, have contented themselves with lobbying the authorities for extra "working capital" and the write-off of their debts to one another.

"Some officials and industrialists have this idea that indexing working capital can solve the problems of enterprises. But they are fighting with the symptoms rather than the cause of the problem – which is bad management," says Mr Alexander Rubtsov, head of Ernst & Young's Russian management and accounting joint venture, Vneshconsult.

As a result, few managers are equipped to make a success of large-scale privatisation which is due to affect 6,500 enterprises this year.

Dr Zubaidur Rahman, of Deloitte Touche in Moscow, says the biggest problem is an absence of management accounting – or the process of gathering information needed to take decisions about present and future business.

After seven decades in which there was no need for western-style management because decisions were made by central planners and prices were fixed by the state, he says most managers cannot calculate or monitor their costs properly (notwithstanding the additional complication of very high inflation now raging in Russia).

Most enterprises have only a faint idea of the time-value of money. Hence the loud complaints by managers about annual interest rates of 83 per cent being far too high despite the fact that inflation last year was about 2,000 per cent. A primitive banking system aggravates cash-flow management problems.

Another big problem is the lack of sales teams at enterprises and of a developed distribution system.

But Mr Rubtsov is optimistic that young Russians, "hungry for work, risk-taking, and free of prejudices from the past" will provide a new generation of enterprise managers.

That generation has already been ushered in by older men, like Mr Viktor Korovin, the 40-year-old manager of heavy engineering giant Uralmash. Other pioneers include Mr Nikolai Bekh, general director of Kamaz, the truck maker transformed into a joint-stock company a few years ago as a government-sponsored experiment in capitalism.

While most of his colleagues asked for more money and fewer changes in government policy, Mr Bekh told the government last year that directors' main problem was a "lack of management accounting".

Not surprisingly, management consultants in Moscow have a lot of good ideas around for how foreign technical assistance funds can be deployed.

Dr Rahman, who trained more than 100 Kamaz managers, would like to replicate a similar training scheme for managers in the oil industry, a proposal which he has put to the European Bank for Reconstruction and Development for possible financing.

But the real problem will be getting assistance for managers who may be open to change but cannot afford it.

Mr Rubtsov, as head of the Russian management consultants' association, is trying to enlist European Community funds to "train the trainers" – educating hundreds of Russian consultants to provide affordable management advice for enterprises. All agree that training in Russia is not only cheaper but more effective. "If they go abroad, they want to waste time shopping," says one.

Recognising in the meantime that political pressures will continue for more funds, Mr Rubtsov, who is also a member of the government's advisory industrial council, advocates a carrot-and-stick approach. This would make limited financial support conditional on changes in management practices, fitting in well with the government's determination to tie new funds to an improved performance at enterprises.

SKILLS NEEDED BY ENTERPRISES:

- Cost control
- Marketing and distribution
- Cash flow management

TASKS FOR GOVERNMENT:

- Efficient banking system
- Cut bureaucracy and provide stable tax and legislative environment
- Allow for faster depreciation of assets

EC attempts to avert crisis in fishing industry

THE European Commission yesterday said it would propose measures to avert a crisis in the EC's fishing sector caused by cheap imports and currency turmoil, Reuter reports from Brussels.

After a meeting between French and Commission fisheries officials in Brussels, the Commission said the measures to "improve prices" would be drawn up by EC Fisheries Commissioner Yannis Paleokrassas and presented by the Commission – probably by mid-week.

Prices had fallen by 15 to 30 per cent across the Community, and cheap imports from Russia, Norway and Iceland, as well as currency fluctuations in the EC, had aggravated troubles in the industry, the Commission said.

Mr Paleokrassas' staff were studying the options and would seek further information when fisheries officials and industry representatives from the 12 EC countries meet for a new round of talks in Brussels today.

The French government promised fishermen FFr272m ($48m) on Friday to bail out the worst-hit fishing families and help fishing companies, after week-long protests by fishermen who blamed their plight on cheap fish from Russia and Chile and accused British ports of selling fish below EC minimum prices.

Fishermen, particularly in north-western Brittany, highlighted their case by tipping fish on to roads or handing them out free. They also burned tyres in fishing ports.

The problem appeared to be more acute in France because of the slide against the franc of the currencies of Spain and Italy, two big customers for French fishermen.

French fishermen were more vulnerable because they could not rely on freezing their catches, thanks to the penchant of the French for fresh fish. "If you freeze fish you could hold out sometimes ... but in France people want fresh fish, as opposed to Denmark" where people ate a lot more frozen fish, a Commission official said.

France set for more postal chaos

By Alice Rawsthorn in Paris

THE French postal service is poised for further disruption this week as post office trade unions try to step up industrial action that created chaos for the mail last week.

Four of the largest postal unions will this morning hold mandatory meetings for members across France to discuss the next stage of their industrial action against the post office's proposals to cut 3,000 jobs this year.

Escalation of the dispute would be a blow to the Socialist government, which also faces protests from farmers and fishermen ahead of next month's parliamentary poll.

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German steel chief outlines crisis plan

By Quentin Peel in Düsseldorf

GERMANY'S steel industry, which prides itself as being the most independent and efficient in the EC, is calling for tough new curbs on state subsidies in other member states, but also for more money from Brussels to ease the pain of mass redundancies.

It wants a "market solution" to the crisis in the industry, but one protected against unfair competition from eastern Europe by volume restrictions on cheap imports. Minimum prices would not be effective, it says.

It also wants a rapid decision by industry ministers this week on the outline of a rescue package, in order to underpin higher prices in the market.

Precise details of capacity cuts would be worked out by the industry itself by September, and then two years would be needed to put them into effect.

Details of the German industry's preconditions for a Brussels rescue package were spelt out by Mr Ruprecht Vondran, president of the German steel industry federation, in a weekend interview.

He warned that the European steel sector as a whole would have to shed more than 100,000 jobs, of which 35,000-40,000 would be in Germany. He agreed with the European Commission that cuts in capacity were needed of between 25m-30m tonnes.

Mr Vondran suggested that efficient producers should in effect buy out market share from inefficient producers, forcing inefficient plants out of production. Subsidies should only be paid in proportion to their reduction in capacity, and Italy and Spain must be targeted as the least efficient, most heavily subsidised producers.

He set out six "criteria" for an agreement, presented last week to Mr Günter Rexrodt, the German economics minister, who will attend the ministerial council in Brussels on Thursday at which the package will be presented.

"We must find a solution which is as close as possible to a market solution," he said. "It means the most efficient producers must remain, and the least efficient must close." The mistake of EC steel policies since the last steel crisis of 1980 was to allow borderline producers to remain in operation.

Mr Vondran singled out Ilva, the Italian steel producer, as "a totally over-indebted enterprise which is adding new losses month by month. Nobody knows what its debt position is, but we believe it is somewhere between DM11bn and DM14bn ($6.6bn-$8.4bn). There is no suggestion of bankruptcy: they simply go on producing."

The steel federation's six-point plan would require:

- A transparent legal framework for production and delivery quotas, decided by the industry within guidelines set by Brussels. "There must be no cartels fixed up behind closed doors," Mr Vondran said.
- Protection against cheap imports from eastern Europe and the former Soviet Union, focused on the most sensitive areas – long products rather than flat products – and limited by quantity, not price. The federation proposes a limit set at 1991 import levels, plus 20 per cent. "Minimum prices don't work. You simply get payments made secretly into Swiss bank accounts," he said.
- Clear restriction on subsidies, as set out in Article 4c of the European Coal and Steel Community treaty, with exceptions limited to those enterprises cutting their capacity enough to have a real effect on the market.
- More generous social payments to ease the redundancies, estimated at more than 100,000 direct job losses in the entire EC industry, and not 50,000 as calculated by the European Commission. The Brussels offer of Ecu450m (£371.7m) between 1993 and 1995 is based on the lower job loss figure.
- Adequate time to carry out the structural changes, with two to three years estimated from agreement on capacity cuts in September.
- Political agreement on the key points in the package on February 25, with the remaining details worked out at official level by the end of March.

Milan shows no mercy on kickbacks

There is an overwhelming cry for political change, writes Haig Simonian

AS ITALY braces for more arrests and resignations in the corruption scandal rocking the country, the consensus in Milan is that all should be brought into the open.

"It's a scandal when the judges keep silent, not when they start putting politicians away," says Mr Luigi Cavallini, director of a machine tool importing company. "The corruption affair may be hurting our image abroad. But it's only in really corrupt countries that the politicians don't go to jail. People should be pleased this is happening."

The corruption probe, which began in Milan and spread nationwide, triggered last week's ministerial resignations and yesterday's cabinet reshuffle. The decision by a parliamentary committee to lift the immunity of Mr Francesco De Lorenzo, the former health minister, and rumours about the possible involvement of Mr Giovanni Goria, the former finance minister, prompted both to resign on Friday.

Many people in Milan share the view that the investigations into political kickbacks should go on, irrespective of the impact on Italy's standing abroad or the value of the lira, which plummeted to L857 against the D-Mark late on Friday.

At Mr Cesare Sbravati's barber's shop, talk of an amnesty for corrupt politicians is instantly dismissed by Saturday afternoon customers. Mr Sbravati, born in Mantua but busy cutting hair in the same small shop for more than 30 years, is convinced the judges should carry on.

"It's only thanks to them that things have come to the surface. Otherwise, the politicians wouldn't have done anything," he says. Mr Alberto Pirovano, waiting for his haircut, agrees. "We're only halfway there. If the judges stop now, the politicians will bury everything."

There is little sympathy for those who have traipsed into Milan's antiquated San Vittore prison, a first stop for many of the politicians and businessmen arrested so far: "They should be made to give back what they've stolen, right up to the last penny," shouts Mr Sbravati's wife from behind the curtain dividing the shop from their sitting room.

The customers are more moderate. They probably appreciate the near-impossibility of tracing the billions of lire which have flowed into private pockets and party coffers

Giuliano Amato: deserves some credit Terry Kirk

though kickbacks on inflated public-works contracts. But they at least want new laws banning all those implicated in corruption from holding elected office again and requiring them to repay what money can be traced.

The vitriol is reserved for Mr Bettino Craxi, the former leader of the discredited Socialist party, whose power base was Milan.

The Socialists "have no future in Milan", says Mr Ambrogio Invitti, waiting his turn in the barber's chair.

But Mr Cavallini, an avowed right-winger who castigates Italy's governments for pumping money into fruitless ventures, usually in the economically-depressed south, gives prime minister Giuliano Amato some credit.

"Every political system in transition has people of the ancien regime alongside the new. At least this government seems to be made up of serious-minded people, unlike the last two years of the former Andreotti government, which paved the way for the damnation of this country."

The overwhelming mood in Milan is that the political system has to change, amid some uncertainty and caution as to how that should be done.

With Italy's budget deficit still growing, such steps are likely to involve further unpopular public spending cuts, hitting social security in particular. They are likely to be least popular in southern Italy, where support for established political parties has proved much more resilient than in the north.

"What should I do?" asks Mrs Pierrina Fusco, a pensioner from the southern region of Appulia, who has been working in Milan for the past 30 years. "Everything's become more expensive. Now I'm going to have to pay for the medicines that used to be free. Tell me what to do, I'll vote for whoever you say."

IG Metall warned over pay demand

By Judy Dempsey in Berlin

MR Hans-Joachim Gottschol, president of the Gesamtmetall engineering employers' association, yesterday said IG Metall, Germany's big engineering union, was pricing its members out of the market and would face more unemployment if it insisted on a 26 per cent wage increase this April for the five east German states.

In an interview with the Berliner Morgenpost, Mr Gottschol said Gesamtmetall would stick to its offer of a 9 per cent wage increase for east Germany's 300,000 IG Metall members. The union is demanding a 26 per cent increase, as agreed in a contract with the employers' association in March 1991.

The contract envisaged bringing east German wages up to west German levels by April 1994. But the employers now insist they can revise the contract because of the deteriorating west and east German economies.

East Germany's inflation rate jumped by 6.7 percentage points in January, against a 1.8 point rise in December and an annual inflation rate of about 11.2 per cent in 1992.

Union officials, who will open arbitration talks with Gesamtmetall in the state of Mecklenburg-Western Pomerania today, are expected to argue that a wage increase is even more justified in the light of the inflation figures.

"IG Metall must finally weigh up the cost [of the wage increase] with the economic reality," Mr Gottschol said. Gesamtmetall officials have said that a 9 per cent wage increase would cost the employers DM1.4bn ($855m), while a 26 per cent increase would cost DM3.9bn.

IG Bergbau und Energie, the energy and utilities union, last week accepted a pay increase of 9.3 per cent for its 60,000 east German members.

Europe faces fewer bars to procurement contracts, report says

US unhappy over access

By David Dodwell

EUROPEAN companies have significantly easier access to procurement contracts in the US, according to a leaked US document that could trigger a US-EC war of numbers in the battle to open up respective government procurement markets.

In a document from the office of the US trade representative, the US claims that bidding opportunities worth $16.8bn (£11.8bn) were offered to EC contractors under the Government Procurement Code in 1990, compared with $7.8bn in EC contracts open to US operators.

The document, which highlights a wide difference between the two sides' view of what amounts to fair access, argues that procurement contracts worth a total of more than $150bn a year are open to bids from EC companies "without any restriction".

It says that in telecommunications, foreign companies won 54 per cent of the market last year for central office telephone switches, with the EC accounting for 13 per cent – while US companies sell no switches at all in France, Germany, Belgium, Greece and Denmark and less than 5 per cent of the switches in the UK, and supply Spain, Italy and the Netherlands only through joint ventures.

The document was tabled during EC-US negotiations in Washington last week aimed at settling the clash over public procurement which flared last month. The new US administration threatened to bar European companies from bidding for federal contracts in the US unless European procurement rules favouring local manufacturers were dismantled by a deadline of March 22.

EC negotiators said in Washington at the end of the talks that a possible solution to the dispute had been found based on "comparable, effective and lasting access" to each other's markets.

However, the leaked document illustrates that the US and the EC retain significantly different views on comparable or effective access. EC officials admitted last week that there were obstacles in the way of US companies bidding for procurement contracts in the EC. But they insisted that systemic differences made it difficult for US officials to recognise the obstacles foreign companies faced in bidding for US similar US contracts.

The US document challenges EC claims that "Buy America" laws bar EC bidders from the US market, insisting that Buy America legislation affects "less than $15bn of procurement" – compared with "over $50bn" of contracts affected by the EC's own "Buy Local" laws.

In a direct challenge to EC claims that the vertical integration of AT&T, the leading US telecommunications group, in effect bars EC companies from bidding for business, a senior US trade official noted that regional US telecommunications groups bought more equipment from Canada's Northern Telecommunications than they did from AT&T – which accounted for just 8 per cent of total US demand for switching equipment.

"The US market is completely open. All of our firms are private and do not discriminate in favour of national suppliers," the document claims. It notes that in spite of the extreme competitiveness of US-made steam turbine power generators, the US has never sold a steam turbine in the EC, and no large transformer since 1983.

By contrast, the US market is "largely open", the document says, with European companies such as Siemens and Ericsson winning 20 per cent of the gas turbine contracts in the US and 30 per cent of the steam turbine deals.

Securities market practitioners 'should have more say in their supervision'

By Richard Waters

THE European Commission's plans to oversee EC securities markets should be amended to give practitioners in the markets more say, according to the International Securities Market Association.

The call, in a report on the development of a single European securities market, highlights a growing struggle between officials in Brussels and market practitioners over how the EC's markets should be run.

The Commission plans to set up a Securities Industry Committee to oversee the implementation of its legislation on securities markets and to recommend any legislative changes – a development which has prompted fears in some quarters that it will lead eventually to a centralised and bureaucratic market regulator.

The association, which regulates the Eurobond (or international bond) market, warned that the EC "is likely to have insufficient staff with high level experience of working in the industry". The plan for a committee should be "discussed more openly" before being carried through, and self-regulatory bodies should "have a role in its day-to-day functioning", it said.

The report also argues:

● Europe does not need a single securities exchange to achieve a single securities market, but a common regulatory approach;

● To help fight fraud, insider dealing and market manipulation, all transactions should be reported to regulators. All regulators would then be able to combine the details to obtain an overview of all market activities.

Towards a Single European Securities Trading Market, ISMA, London. Free.

EC is turning inward – and falling behind

The fruits of the single European market are starting to look less healthy, reports David Marsh

IS Europe starting to seize up again? Fears during the last decade that Europe was suffering a damaging loss of international competitiveness were dissipated during the EC's mini-economic boom of the late 1980s, partly engendered by the run-up to the single market.

With the European Community this year facing a re-run of the 1981-1982 recession, and the Maastricht integration process bedevilled by question-marks, Europessimism seems to be coming back into fashion.

Backing up the new mood, a discussion paper from the London-based Centre for Economic Policy Research (CEPR) concludes that the economic effect of integration has been far less positive than often argued.

Further, it has led to an inward-looking and protectionist trend in the EC's international trade policy. This appears to have contributed to a technological lag between the Community and other parts of the world.

The study's conclusions are borne out by figures from the Organisation for Economic Co-operation and Development showing declines in the export market shares of leading EC economies in recent years – though this is a problem shared by virtually the entire industrialised world.

The study's author, Prof Alan Winters of Birmingham University, denies being a "Eurosceptic". He backs the single market programme as a way of pressing forward with internal market liberalisation started with the Treaty of Rome in 1957. But, he says, he produced his report "to prick the balloon of complacency" about the achievements of European integration.

The existence of the EC has coincided with above-average growth of its members' economies, with the 12-member Community's share of world GDP increasing from 22.5 per cent in 1965 to 23.5 per cent in 1989, Prof Winters writes.

However, he adds that EC unemployment has been persistently high. In addition, the Community has been less able to control inflation and unit labour costs during the past decade than important competitors, and has fallen behind in high technology compared with the US and Japan.

Among the EC's chief drawbacks, Prof Winters points to the EC's common agricultural policy. This has brought protectionism to trade since the early 1980s, making the EC a net agricultural exporter rather than a net importer.

The subsidies flowing to EC producers have caused EC consumers annual income losses of 1.5 per cent of GDP. In terms of overall trade flows, Prof Winters believes EC members' success in increasing trade among each other has detracted attention from falling ratios for trade with the rest of the world.

This has coincided with restrictive EC trade policies to protect sectors such as motor vehicles, consumer electronics and office machinery.

The Community suffers from "a tendency to look backwards and preserve itself from change, rather than to embrace change", Prof Winters remarks.

This trend is illustrated by the rising proportion of EC GDP devoted to industry subsidies. "Some subsidies are given to emerging sectors such as the Airbus, but the bulk of them go to resisting change in traditional sectors.

"The use of protection to avoid industrial restructuring has almost certainly contributed to Europe's falling behind the US and Japan in high-tech goods."

Prof Winters cites figures showing that the fall in the EC's share of world engineering markets since 1970 has been concentrated in more sophisticated products. In less technologically demanding areas of engineering, the EC's share of world trade has increased.

"We're doing OK relative to India, but not so good compared with Korea," Prof Winters says.

He complains about the protective bias of EC trade arrangements with central and eastern Europe enshrined in the "Europe agreements" completed last year with Czechoslovakia, Hungary and Poland.

Citing restrictions on "sensitive" east European exports in areas such as steel and chemicals, Prof Winters says: "A noble concern for the welfare of our brothers in Europe was subverted by entrenched economic interests."

Moreover, the accords are geared in the long run to giving the EC preferential access to east European markets rather than the other way around.

"The Europe agreements seem intent on obtaining markets and production facilities in Czechoslovakia, Hungary and Poland, on managing access to EC markets and, above all, on avoiding serious levels of migration."

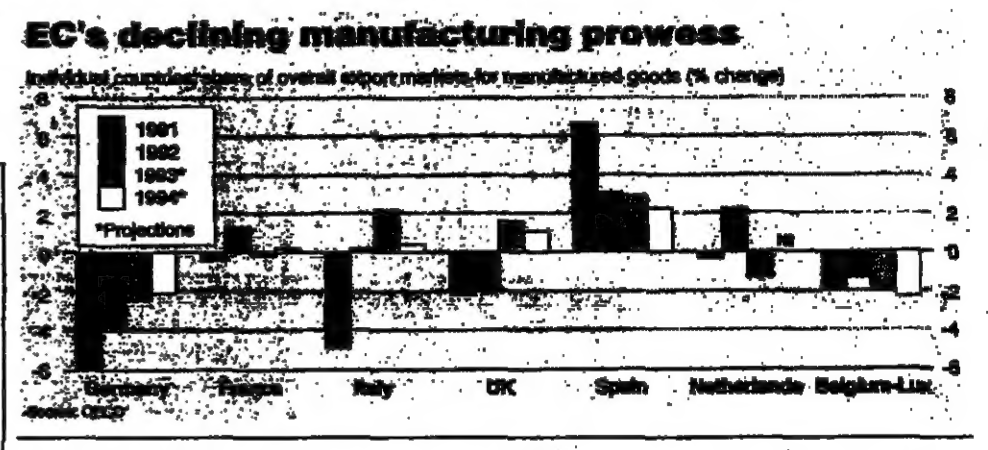
Prof Winters says the European Community has reduced protectionist pressures in some areas by giving national manufacturers the opportunity of a larger internal market.

But "once protectionism is introduced, it is spread around more and more difficult to remove."

When high interest rates and recession are spreading economic gloom around the Community, removing these sources of Euro-protectionism will be especially difficult.

Prof Winters' study suggests, however, that the EC should be preparing a new trade policy agenda for the time when growth starts to edge up again.

CEPR: 25-28 Old Burlington Street, London W1X 1LB. Tel 071-734 9110



Expansionary budget planned for Romania

By Virginia Marsh in Bucharest

ROMANIA'S minority government this week faces its biggest test to date when it presents an expansionary budget to parliament for 1993-1994.

The left-wing Democratic National Salvation Front, which formed a government in November, plans to increase government investment by raising corporate taxation.

Profit tax would rise to 40-60 per cent, from 30-45 per cent, although companies involved in exporting would be eligible for discounts of up to 50 per cent. The budget deficit would rise to 428bn lei (£568.6m), or 4 per cent of gross domestic product, up from 2 per cent last year.

Despite a 15 per cent fall in Romania's GDP last year, the budget has been drawn up on the basis that GDP will remain stable this year and that annual inflation will drop from 200 per cent to 80 per cent.

The trade deficit is forecast to reach $1bn-$1.3bn, with external debt expected to double to $7bn this year. However, only $4bn of foreign credit would be drawn in 1993, according to Mr Misu Negritoiu, deputy prime minister with responsibility for economic reform.

Mr Negritoiu, an independent who is considered the cabinet's key reformer, said government spending would be aimed at privatisation and restructuring, infrastructure projects, agriculture and building up social welfare.

Constitutional struggle goes on in Moscow

By Leyla Boulton in Moscow

PRESIDENT Boris Yeltsin and the speaker of the Russian parliament, Mr Ruslan Khasbulatov, will continue this week to search for a constitutional deal in a suicidal power struggle each side is determined to win.

After the two men traded insults directly or through their spokesmen, a first round of negotiating between their emissaries on Saturday produced no progress. A 10-day deadline for an agreement expires at the end of the week.

If none is found through the current mixture of behind-the-scenes negotiating and megaphone diplomacy, Mr Yeltsin has vowed to take the struggle to a referendum which would ask people whether parliament or the president should rule the country.

Mr Yeltsin wants the parliament to stick to examining legislation, leaving the government strong executive powers to conduct economic reform and dispose of state assets.

The alternatives to a deal are grim.

A referendum would further destabilise the political situation at a time of deep economic crisis. Some independent-minded regions could refuse to hold the poll. Furthermore, it could be seen as a flop for failing to ask clear questions (parliament also has a say in setting them) and by producing a turnout too low to provide a clear answer.

Row over deportees dogs Christopher tour

By Mark Nicholson in Cairo

MR Warren Christopher, US secretary of state, was set yesterday to carry his listening tour of the Middle East from Damascus to Riyadh, having heard Jordanian and Syrian assurances of their resolve to continue the faltering peace process. But leaders in both countries stressed that Israel's deportation of Palestinians continued to obstruct a return to talks, which have been adjourned since mid-December.

Mr Christopher held talks with President Hafez al-Assad, the Syrian leader, yesterday and was due to fly on for brief visits today to Saudi Arabia and Kuwait, where discussions are likely to focus more on Gulf security issues than on Middle East peace.

King Hussein, the Jordanian ruler, told Mr Christopher on Saturday that he was anxious to return to the peace talks as soon as possible, but that the continued exile of the 396 Palestinians deported by Israel two months ago remained an obstacle.

Mr Farouq al-Sharaa, the Syrian foreign minister, made a similar statement on Mr Christopher's arrival in Damascus. He said the peace talks remained the sole option for countries in the region. "What is the alternative except disaster in the region?" he asked. "Hopefully the obstacles can be removed from our path."

But US officials have repeatedly said the secretary of state has no immediate plans to resolve the impasse over the deportees. Officials travelling with Mr Christopher said he would, at best, gently encourage Israel to speed up a judicial review of the deportees' cases, a process which might accelerate the return of some.

Mr Christopher said over the weekend that he stood by a compromise formula worked out between Israel and the US whereby Israel would take back 101 of the 396 deportees immediately and the rest within a year.

The Arab parties to the peace talks, however, have rejected this formula, insisting that Israel must implement United Nations resolution 799, which calls for the immediate repatriation of all the deportees.

Mr Christopher will meet Palestinian spokesmen and their Israeli counterparts in Jerusalem tomorrow.

Sectarian intolerance which has swept through India is echoed on Bombay's playing fields

Inter-religious forgiveness is just not cricket

By Stefan Wagstyl in Bombay

THE recent inter-religious violence which tore through Bombay seemed to be forgotten at the weekend as Hindu and Moslem cricket fans flocked to the city's Wankhede stadium and united to support India against England.

But even in the brilliant sunshine, dark reminders of the anger simmering in Bombay were never far away. Like the city itself, cricket in Bombay is falling prey to intolerance.

Shiv Sena, the local militant Hindu party whose supporters were among the bloodiest participants in the recent riots, rules the roost at the cricket ground. Mr Manohar Joshi, president of the Bombay Cricket Association and host for the test match, is also a deputy leader of Shiv Sena. Mr Bal Thackeray, the Shiv Sena leader who has often expressed his appreciation for Adolf Hitler's "patriotism", is a frequent guest in the committee box.

The city bore the brunt of the violence which hit India after Hindu militants, including many from Bombay, destroyed the Ayodhya mosque in early December.

Today, a month after the unrest reached its bloody climax, much of India's commercial capital has returned to normal life. But the fears fanned by Shiv Sena and other Hindu and Moslem extremist organisations persist.

Mr Joshi, a life-long cricket fan, was elected president last year after Shiv Sena supporters broke into the Wankhede stadium and vandalised the wicket to force the cancellation of a match between India and Pakistan. Pakistan drew Shiv Sena's ire both because it is Moslem and because of the support it gives to rebel movements in the north Indian state of Kashmir.

Mr Joshi shows no remorse for the attack on the pitch, nor is he in any mood to let Pakistan play in the future.

Even though India, Pakistan and Sri Lanka have just won the right jointly to stage the next cricket World Cup, Mr Joshi will not promise to let Pakistan play in Bombay. "It will all depend on the political situation," he says with a thin smile.

The soft-spoken Mr Joshi has an unsettling way with words. At one moment he praises Mohammed Azharuddin, India's Moslem cricket captain, and says: "I love my [Indian] Moslem brothers." At another he says India's Moslems should be shorn of their privileges, such as the right to their own family law.

The widely held belief that Shiv Sena organised anti-Moslem violence is dismissed as "propaganda".

Hindu and Moslem fans unite to support Indian cricketers (pictured evading a ball hit by Graeme Hick) but tensions remain

There are Moslem extremist groups as virulent as Shiv Sena, such as Jamaat-e-Islami, but outside Kashmir they attract little support and carry virtually no political weight. Shiv Sena matters; together with the Bharatiya Janata party, the national Hindu militant grouping, it controls 100 of 252 seats in the state assembly of Maharashtra, which includes Bombay.

The ruling Congress (I) party is struggling to keep its majority intact.

A few liberal Bombay citizens are prepared to stand up publicly to Mr Joshi and Shiv Sena, among them Mr P. Sainath, a local magazine editor who has organised a support fund for journalists who suffered losses in the violence. "We must fight Shiv Sena. Look what it has done to our city," he says.

Many more prefer to express their condemnations of Shiv Sena in private – for fear of reprisals. In public they limit themselves to decrying violence and to contributing to charities aiding the victims.

Bombay's political leaders have failed to orchestrate any campaign against Shiv Sena. Since the riots ended the Congress (I) party has been locked in an internal dispute in which Mr Sudhakarrao Naik, the chief minister, is pitted against Mr Sharad Pawar, the national defence minister, whose power base is in Bombay. Each is trying to push responsibility for the riots on to the other.

The absence of any strong political call for the defence of the city's cosmopolitan traditions has left many Bombay residents confused.

Among the élite there is a reluctant but growing willingness to side with Shiv Sena and the BJP, if only because their views are clear. "People say: 'At least we know where we stand with them'," says one retired Hindu academic. "Congress offers no alternative."

Some liberals are close to despair.

One leading industrialist says: "I see parallels with Germany in the 1930s. People who say the BJP is not so bad are like the Jews who said they were too rich and powerful for Hitler to hurt them."

But others see such fears as exaggerated. "To make comparisons with Germany is complete rubbish," another industrialist says. But he, like the first, prefers not to have his name appear in print.

"It's difficult. These people [militants such as Shiv Sena] are so unpredictable."

NEWS IN BRIEF

Polish interest rate cut reflects new optimism

POLAND'S central bank, the NBP, has cut its basic refinancing interest rate by three points to 35 per cent, writes Christopher Bobinski from Warsaw.

The move reflects optimism about an expected 2 per cent GDP growth in the economy this year and a lower inflation rate, projected at 32 per cent.

Mrs Hanna Gronkiewicz Walc, NBP chairman, said she expected Polish banks to reduce their lending rates, which currently range between 40 per cent and 60 per cent.

The refinancing rate is used by the NBP to lend money to government-funded investment projects and is regarded as the marker for the banking system.

The central bank's rate cut follows recent falls in Treasury bill yields and inter-bank lending rates, which at the end of last week stood at an annual 40 per cent for three-month deposits.

Floods hit Ecuador provinces

Dozens of people have been killed and thousands of hectares of crops destroyed by floods in the coastal provinces of Ecuador, writes Ray Colitt from Quito.

More than a week of heavy rain has destroyed an estimated 10,000-30,000 hectares of banana, soya and rice crops in the province of Guayas alone. The province also saw 44 new cases of cholera. In the north-western province of Esmeraldas at least 22 people died in the floods and landslides blocked many roads.

The Ministry of Agriculture confirmed that much of the country's rice crop had been destroyed, while the federal government announced immediate relief funds to the coastal provinces.

Philippine minister offers to quit

Mr Rafael Alunan, Philippine secretary of the interior and local government, whose jurisdiction includes the scandal-tainted Philippine National Police, offered his resignation yesterday, writes Jose Galang from Manila.

Mr Alunan's move came three days after Mr Fidel Ramos, the Philippine president, called for the resignation of police officers who had earlier been relieved of field assignments or accused of corruption or incompetence.

However, Mr Alunan's offer does not appear likely to be accepted. According to observers, the Ramos call was directed at 16 generals and 35 colonels in the PNP who now have no specific assignments. The so-called "floating" officers include Mr Cesar Nazareno, the PNP director-general who was relieved of his duties last August by Mr Ramos.

Five die in Senegal poll violence

Voting began yesterday in Senegal's presidential election, with separatist violence in the south claiming five more lives, Reuter reports from Dakar.

The rebel Movement of Democratic Forces of Casamance (MFDC) has vowed to disrupt all political activity in Casamance province, which is practically cut off from the rest of Senegal by Gambia. At least 140 people have been killed since the MFDC stepped up its decade-old rebellion last September. Elsewhere, campaigning has been peaceful.

Political analysts say President Abdou Diouf is tipped to win, but the race will probably be close. The spread of candidates, and a new stipulation that the winner must be backed by at least a quarter of the 2.5m registered voters, will probably mean a run off on March 7.

NEWS: INTERNATIONAL

ANC sanctions plea until poll date set

By Patti Waldmeir in Johannesburg

THE African National Congress yesterday relaxed its policy on economic sanctions against South Africa, but said sanctions should remain until a date is set for multi-racial elections.

This cannot be done until multi-party negotiations yield agreement on a range of difficult issues including basic principles for a new constitution, the re-incorporation of nominally independent black homelands and multi-party control of the security forces.

Agreement on an election date is likely to take several months, although swift progress in multi-party talks, due to begin next month, could bring agreement sooner.

The ANC yesterday imposed several linked conditions for the lifting of sanctions, apart from an election date: a multi-party council must be established to oversee the government, with subsidiary councils to supervise elections and the state-run broadcasting corporation, and the existing constitution must be amended.

Once these steps are taken, the ANC would call for trade, investment, financial and diplomatic sanctions to be lifted, but the international arms and oil embargoes would remain in place.

Such a move would boost the business mood in South Africa, but would have little effect on private investment, with domestic and foreign investors more concerned about prospects for political stability and economic discipline under a multi-racial government.

A resumption of lending by multi-lateral financial institutions such as the World Bank and International Monetary Fund would be the biggest benefit from an end to sanctions.

The IMF might make funds available immediately through its compensating financing facility, designed to reimburse member countries for an unexpected shortfall in export receipts or rise in imports. However South Africa could not seek balance of payments support until its current account was in deficit. It was around R4.5bn (£1bn) in surplus last year.

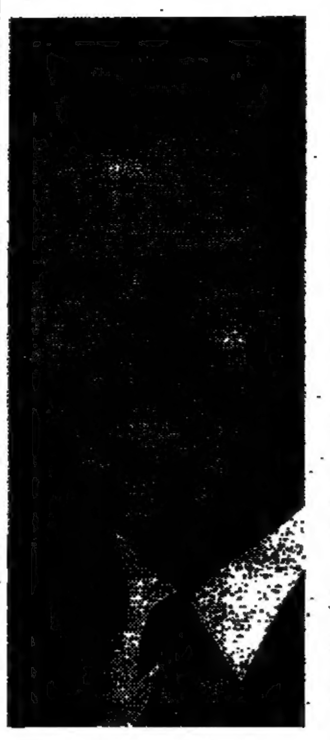
Since the mid-1980s, South Africa has been forced to run a substantial current account surplus to cover foreign debt repayments, since international banks halted new lending to the republic. Capital outflows since 1985 have totalled over R40bn.

ANC officials hope that lifting sanctions would prompt a surge of foreign investment and boost its chances of victory in the first multi-racial elections. At the weekend, ANC leader Nelson Mandela appealed for R130m for the organisation's election campaign.

Meanwhile Mr F.W. de Klerk, the President, tried to tackle his government's racist image in advance of elections, by appointing two coloureds (mixed race) and one Indian to his cabinet in minor positions. However he also appointed a noted hardliner, Mr Kobie Coetsee, to the sensitive position of Minister of Defence.

Spectre of 1990 poll haunts Hewson

Australia's opposition may yet fail to oust Labor, writes **Kevin Brown**



John Hewson: unexpectedly strong performance

TWO weeks into Australia's five-week federal election campaign, the conservative opposition parties are increasingly confident of ending a decade of Labor rule.

Buoyed by an unexpectedly strong performance by Mr John Hewson, the opposition leader, the Liberal/National Party coalition has built up a lead of 6-12 percentage points in the opinion polls.

At face value, the polls suggest a comfortable margin for the coalition, which requires a uniform national swing of only 0.9 per cent on March 13 to win the six seats needed to take power.

But, as polling day draws nearer, detailed local polling suggests that the gap is much smaller in marginal seats that will decide the election.

That raises the uncomfortable prospect for the conservatives of a repeat of the 1990 election, when the coalition won the biggest share of the popular vote, but failed to win enough seats to take power.

The key to victory lies in about 20 marginal constituencies, many of which are being fought on local issues that tend to insulate voters from the national trend.

The government is weakest in Western Australia, where it holds four seats by majorities of less than 2.5 per cent; South Australia, where it would lose four seats on a swing of 3.8 per cent; and the sugar belt of northern New South Wales and Queensland, where it holds six seats by margins of less than 5 per cent.

Mr Paul Keating, the prime minister, can do little to defend the Western Australian seats except hope that the defeat of a Labor state government earlier this month has assuaged voters' anger against the party.

However, Labor is fighting hard in the sugar belt, where it has offered to exempt sugar farmers from its tariff reduction proposals for the duration of the next parliament.

The coalition, which also holds a highly marginal sugar belt seat, has matched the government's offer with a A$145m (£69m) package designed to compensate for its own proposed tariff cuts.

Mr Keating tried last week to shore up Labor support in South Australia by offering A$600m in federal funds to rescue the state Labor government from the financial consequences of a A$3bn loss by a state-owned bank.

However, the critical battle will be fought in the conservative-controlled states of New South Wales, Tasmania and Victoria, where the conservatives are defending six seats with majorities of less than 3.5 per cent.

Labor's chief hope is in Victoria, where the party lost heavily in 1990, and was defeated in a state election in October. Government strategists believe the conservative vote in the state may have peaked.

An analysis of local opinion polls published in The Age newspaper in Melbourne concluded that Labor would benefit from a swing of between 0.5 per cent and 3 per cent on present voting intentions, which could translate to a gain of three or more seats.

If the coalition does well elsewhere, Victoria will not matter. But in a close election, Labor gains in the state could keep the conservatives out of office, or reduce the size of their majority in the House of Representatives.

That would be a severe blow for the coalition, which is relying on the moral authority of a substantial majority to force controversial legislation through the Senate.

Unlike the House, the Senate is elected by proportional representation, which usually delivers the balance of power to the Australian Democrats, a populist left-wing party which has never won a House seat.

Senator John Coulter, leader of the Democrats, says the party will oppose key conservative proposals to expand private health insurance, deregulate the industrial relations system and introduce a goods and services tax.

Unless Senator Coulter backs down, that would ensure that large parts of the conservative agenda would be blocked, leaving Mr Hewson with little choice other than to seek the dissolution of both houses and a second election.

Many Australians, already grumbling about compulsory voting every three or four years, would regard that as the worst outcome of all.

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

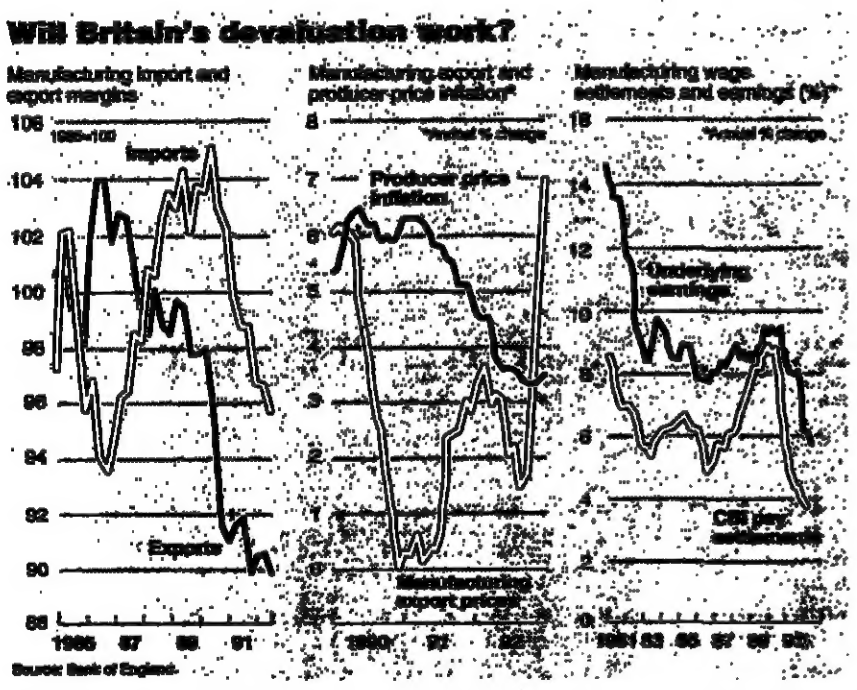
	UNITED STATES					JAPAN				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	101.9	98.6	102.2	98.4	78.5	100.6	95.3	101.4	103.3	131.0
1987	105.6	100.7	103.8	98.7	65.4	101.2	92.5	103.1	100.6	131.6
1988	109.9	103.2	106.9	98.1	61.6	102.2	92.3	107.0	98.2	140.3
1989	115.2	108.2	110.0	99.9	65.6	104.9	94.2	114.0	95.1	132.2
1990	121.5	113.8	113.8	100.9	60.9	108.2	95.7	120.1	96.2	114.6
1991	126.6	116.3	117.3	103.5		111.6	97.3	124.4	101.6	
1992	130.4	117.7	120.1	103.1		113.9				
1st qtr.1992	2.9	0.4	2.6	−0.1		2.1	−0.6	2.5	8.2	
2nd qtr.1992	3.1	1.3	2.9	−0.5		2.6	−0.7	2.4	8.7	
3rd qtr.1992	3.1	1.5	2.3	−0.2		2.0	−0.8	1.0	8.7	
4th qtr.1992	3.0	1.5	2.0	−1.0		0.9				
February 1992	2.8	0.6	3.5	−0.1	n.a.	2.2	−0.6	1.2	8.9	n.a.
March	3.2	1.1	2.6	−0.7	n.a.	2.1	−0.7	1.7	9.8	n.a.
April	3.2	1.1	3.4	−0.6	n.a.	2.8	−0.7	1.3	8.7	n.a.
May	3.0	1.1	2.6	−0.7	n.a.	2.3	−0.7	1.1	11.9	n.a.
June	3.1	1.6	2.6	−0.3	n.a.	2.5	−0.7	3.8	8.7	n.a.
July	3.2	1.7	1.7	−0.2	n.a.	2.0	−0.7	2.3	8.8	n.a.
August	3.2	1.6	2.6	−0.4	n.a.	1.8	−0.8	−1.5	11.4	n.a.
September	3.0	1.6	2.5	0.0	n.a.	2.2	−0.7	1.4	5.6	n.a.
October	3.2	1.7	1.7	−0.5	n.a.	1.2	−0.8	1.5	8.5	n.a.
November	3.0	1.3	1.7	−0.9	n.a.	0.6	−0.9	1.5	9.4	n.a.
December	2.9	1.6	2.5	−1.2	n.a.	0.9				n.a.
January 1993	3.3	1.6			n.a.	1.0				n.a.

	GERMANY					FRANCE				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	99.9	97.5	103.8	103.8	110.2	102.5	97.2	104.5	101.5	102.3
1987	100.1	95.1	108.0	107.1	123.9	105.9	97.6	107.6	103.0	102.6
1988	101.4	96.2	113.0	108.8	125.3	108.8	102.6	111.1	104.3	98.5
1989	104.2	99.3	117.3	107.9	121.0	112.5	108.4	115.4	106.5	92.3
1990	107.0	101.0	123.8	110.4	126.0	116.4	107.1	120.6	110.0	95.7
1991	110.7	103.4	131.8	114.9		120.0	105.6	125.6	114.0	
1992	115.1	104.8				123.3				
1st qtr.1992	4.3	2.0	n.a.	4.5		3.1	−3.0	n.a.	1.5	
2nd qtr.1992	4.5	2.0	n.a.	3.9		3.1	−1.1	n.a.	2.6	
3rd qtr.1992	3.5	1.0	n.a.	6.1		2.7	−0.9	n.a.		
4th qtr.1992	3.7	0.6	n.a.			2.2		n.a.		
February 1992	4.3	2.0		3.6	n.a.	3.0	n.a.	–	n.a.	n.a.
March	4.8	2.5		5.4	n.a.	3.2	n.a.	3.6	n.a.	n.a.
April	4.6	1.9		5.4	n.a.	3.1	n.a.	–	n.a.	n.a.
May	4.6	2.0		1.7	n.a.	3.1	n.a.	–	n.a.	n.a.
June	4.3	2.0		4.3	n.a.	3.0	n.a.	3.5	n.a.	n.a.
July	3.3	1.1		8.9	n.a.	2.9	n.a.	–	n.a.	n.a.
August	3.5	1.1		6.2	n.a.	2.7	n.a.	–	n.a.	n.a.
September	3.6	0.8		4.3	n.a.	2.6	n.a.	3.5	n.a.	n.a.
October	3.7	0.5		7.8	n.a.	2.4	n.a.	–	n.a.	n.a.
November	3.7	0.5		9.4	n.a.	2.1	n.a.	–	n.a.	n.a.
December	3.7	0.5			n.a.	2.0	n.a.	–	n.a.	n.a.
January 1993	4.4	0.8			n.a.				n.a.	n.a.

	ITALY					UNITED KINGDOM				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	106.1	100.2	104.8	102.7	101.5	103.4	104.3	107.7	104.5	93.3
1987	111.0	103.2	111.8	105.5	102.5	107.7	108.3	116.3	105.9	91.3
1988	116.5	106.8	118.4	109.7	101.5	113.0	113.2	126.2	108.9	97.5
1989	124.2	113.1	126.6	112.4	107.2	121.8	118.0	137.2	113.8	96.4
1990	131.8	117.8	134.7	118.9	113.7	133.3	125.0	150.1	123.2	102.3
1991	140.3	121.7	147.9	131.3		141.2	133.0	162.4	132.8	
1992	147.7					146.4	136.0	173.1	135.0	
1st qtr.1992	5.5	1.4	9.2	3.2		4.1	4.5	8.6	4.1	
2nd qtr.1992	5.5	2.0	6.0	5.0		4.2	3.6	5.9	1.5	
3rd qtr.1992	5.2	1.9	3.7			3.6	3.5	6.2	1.8	
4th qtr.1992	4.8					3.0	3.4	5.7	0.0	
February 1992	5.5	1.5	9.1	n.a.	n.a.	4.1	4.4	7.8	2.2	n.a.
March	5.6	1.4	9.1	n.a.	n.a.	4.0	4.5	10.3	2.2	n.a.
April	5.5	1.8	8.8	n.a.	n.a.	4.3	3.5	6.0	0.0	n.a.
May	5.7	2.1	4.8	n.a.	n.a.	4.3	3.5	7.0	2.7	n.a.
June	5.4	2.1	4.7	n.a.	n.a.	3.9	3.6	5.9	2.0	n.a.
July	5.4	1.9	4.0	n.a.	n.a.	3.7	3.6	6.2	3.0	n.a.
August	5.2	1.8	3.5	n.a.	n.a.	3.6	3.4	6.5	1.7	n.a.
September	5.1	1.8	3.7	n.a.	n.a.	3.6	3.4	5.7	0.7	n.a.
October	4.8	2.0	4.1	n.a.	n.a.	3.6	3.3	6.3	0.3	n.a.
November	4.8	2.2	2.1	n.a.	n.a.	3.0	3.3	5.6	0.2	n.a.
December	4.8			n.a.	n.a.	2.6	3.5	5.4	−0.5	n.a.
January 1993	4.2			n.a.	n.a.	1.7	3.5			n.a.

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: IMF real effective exchange rate based on relative unit labour costs (non-normalised). A fall in the index indicates improved international competitiveness.

Will Britain's devaluation work?



Source: Bank of England

The importance of picking the right inflation target

BRITAIN'S membership of the European exchange rate mechanism may have delivered painfully high interest rates, an uncompetitive exchange rate and a deeper recession than the government needed in order to control inflation. But it did have the advantage of simplicity. Monetary policy-making outside the ERM may be less painful; but, as the Bank of England's extensive inflation report demonstrates, it is much more complicated.

In the ERM, the UK government's monetary policy was largely determined by the need to keep the exchange rate within its target zone, assuming this delivers low and stable inflation. But chastened by its ERM experience, and the failure of domestic money targeting in the early 1980s, the government now appears to have abandoned intermediate monetary targets altogether. Instead it has adopted an explicit inflation target, the annual rate of retail price inflation excluding mortgage interest payments, which the Treasury aims to keep within a 1-4 per cent range.

The Bank of England, like the Treasury, appears in no mood to advocate a return to domestic monetary targeting. "Inflation is a a monetary phenomenon," the Bank confirms in language reminiscent of the writings of the monetarist guru and Chicago University economics professor Milton Friedman. But "the lags between changes in monetary policy and changes in inflation are known only imprecisely, and will vary with the state of the cycle". The current erratic behaviour of monetary aggregates merits only a little over one page in the Bank's 45-page report.

Nor is the Bank willing to view the government's inflation target as a simple guide to policy. It makes sense, the report suggests, to announce an inflation target in order to guide expectations and to provide a means of assessing past performance. But "monetary policy is set in relation not to the current rate of inflation but to inflationary trends over the next year or two". The fact that underlying inflation rate is currently within its target range makes little difference to this judgment.

The Bank also counsels against placing undue emphasis on the government's chosen inflation measure out of the many other inflation indicators that could have been picked. If all prices were to rise at the same rate, the Bank says, then there would be no ambiguity about the measurement of inflation. But relative prices change all the time. So while one price index is needed for assessing performance, and the underlying RPI is "as good as any, and better than most", it would be "unwise to rely on any single index as the only guide to inflationary trends in the economy".

Sterling's recent devaluation does, in fact, make it particularly important that movements in the underlying rate of retail price inflation are not the main guide to monetary policy. The devaluation will inevitably lead not only to higher import prices but also to a higher aggregate price level, and thus temporarily faster inflation, than would otherwise have been the case. What matters is that this rise in aggregate prices occurs through a rise in the prices of traded goods, largely manufactures, relative to non-traded goods in order to increase the profit margins of exporters and help close the trade deficit.

This shift in relative prices is already under way. The left-hand chart tracks the squeeze on manufacturing export profit margins over the past seven years, the combination of sterling's appreciation and the poor state of the world economy. But last autumn's devaluation means that exporters have been able to raise the sterling prices of their goods, as the middle chart shows, which should increase export profit margins and volumes.

Unless, that is, the rise in producer prices leads to higher wage inflation, thereby preventing the change in relative prices by spreading the increase in aggregate prices to non-traded goods as well. Wage settlements are currently depressed, largely because of the persisting recession. A rise in wage inflation, not the underlying RPI, should be the government's first serious inflationary danger signal.

Edward Balls

NEWS: UK

British Rail faces wave of strikes

By David Goodhart, Labour Editor

BRITAIN'S state rail network could be hit by a wave of one-day strikes at the end of March following the failure of RMT, the main rail union, to win privatisation-related employment assurances from British Rail.

RMT said yesterday it would hold a ballot early next month for a "rolling programme" of 24-hour strikes. Employment law means it must start the strike action within 28 days or re-ballot.

A spokesman said the union's executive had undertaken a consultation exercise and was confident a majority of the 70,000 RMT railworkers, out of a total of 125,000, would support the call.

Although the strike call was originally linked with the related campaign by the National Union of Mineworkers against pit closures the RMT now says that the primary reason is BR's refusal to give a no compulsory redundancy pledge to rail workers. RMT believes that on top of the 7,000 redundancies now being completed BR will seek another 20,000 redundancies in the next financial year.

A BR spokesman said that the company had gone to "great lengths to protect the staff" and that there would be "virtually no compulsory redundancies".

Survey shows devaluation pushed prices 17% below the average in 14 countries

UK is 'Europe's bargain basement'

By Guy de Jonquières, Consumer Industries Editor

Check out: devaluation has made supermarket prices in the UK cheaper than in many other European countries

DEVALUATION of sterling has turned Britain into a bargain basement for supermarket shoppers from other European countries, according to an international price survey.

It finds UK retail prices for a range of food, drink and consumer products are 17 per cent less than the average for 14 European countries and 43 per cent lower than in Sweden, the most expensive.

The survey, carried out for the Financial Times last month by A.C. Nielsen, the market research firm, also finds little evidence that leading consumer product manufacturers have raised their UK prices since sterling left the exchange rate mechanism in September.

Of 31 market-leading branded products surveyed, 17 have fallen in price since August, by as much as 7 per cent. Much the biggest rise, for canned salmon, was 23 per cent, though it had moved sharply up and down in the previous six months.

In several cases, reductions in the prices of the brand leaders have not been matched fully by retailers' competing own-label products, which are usually cheaper.

The international price survey covered a basket of 45 "Euro-brands" – products sold in at least four of the larger European countries. The basket includes processed foods, snacks, petfood, alcohol, soft drinks, household cleaners and personal care products.

Britain emerged as the cheapest country in every product category except alcoholic beverages, for which prices were six per cent above the European average. However, prices were 56 per cent higher than the average in Austria and 47 per cent higher in Ireland and Switzerland.

Some items, however, still cost more in Britain. The UK price of Ajax cleanser is eight per cent higher than the European average and twice the level in Spain, while Nutella chocolate spread and Danone yoghurt are respectively 10 per cent and 18 per cent above the European average.

The survey also finds that Guinness, the national drink of Ireland, costs more there than anywhere else in Europe, while Coca-Cola, the national drink of America, is cheapest in France. The next cheapest country after Britain is France, where the basket of "Euro-brands" costs 96 per cent of the European average, followed by Greece, Spain and Germany.

Overseas competition cuts into machine tool sector

Andrew Baxter charts the decline of a fading star in manufacturing

Can Britain make it?

THE head of a German machine tool company was asked recently whether he was worried by sterling's devaluation. After all his British competitors markets are now more than 15 per cent more competitive.

Not at all, he said. But 10 years ago it would have been different. Britain had a machine tool industry then.

Machine tools was a star in the UK balance of payments. Today it reflects the decline of Britain's engineering industry.

UK industrialists complain they are forced to buy foreign equipment for their factories. But Mr Neil Johnson, head of the Engineering Employers' Federation (EEF), maintains the only thing wrong with mechanical engineering in the UK is its size.

The problem might seem exaggerated if the bare figures are anything to go by. Last year, the UK had an apparently healthy surplus in engineering, with exports some 20 per cent larger than imports.

Adjusted for inflation, the numbers tell a different story. In 1993 money, as calculated by the EEF, total output has fallen from £45bn in 1979 to £33bn last year, in line with that of French mechanical engineering, but a long way short of the German sector, Europe's biggest.

Exports slipped from £15bn to £12bn, while imports have risen from £9bn to £10bn.

The performance of different sectors has varied widely, although none could be called sparkling. Comparing 1990-91 1978-79, the worst performer was fabricated and structural steelwork, where exports fell 57 per cent and imports surged by 184 per cent.

Next worst was mining machinery, a sector now facing a deeply uncertain future in its domestic market. Imports have risen by 48 per cent while exports have fallen by 61 per cent.

Among the better performers was power equipment, where exports fell 44 per cent and imports dropped by 71 per cent, due mainly to the lack of UK demand. But real progress was made in ball and roller bearings (exports up 23 per cent, imports up 4 per cent).

UK companies have also been hit by newly-industrialised countries. Previously captive export markets have built up their own industries.

So how can Britain improve its performance? One answer is to attract inward investment. The improvement in bearings largely results from investment by Japanese companies.

Mr Johnson of the EEF insists that it would be wrong to be too gloomy. The UK, he argues, is one of the most attractive countries for companies that want to establish a European presence.

In the short term, there is excess production capacity of 20 to 40 per cent that can be soaked up as the world recovers from recession. Going beyond that, however, needs new investment. The history of the past 20 years suggests that will be harder than it sounds.

Britain in brief

London still European finance centre

London maintained its status as Europe's main financial centre last year with the number of banks leaving the city equalling those coming in.

The latest survey by Noel Alexander Associates, a consultancy which specialises in financial statistics, shows that London lost 22 banks last year while the same number moved into the city. The number of foreign banks in London totalled 494. The numbers are slightly misleading since seven of the apparent departures, according to the compilers of the survey, were due to mergers or restructuring of foreign banks. European banks accounted for more than half the departures or mergers and US banks for another five.

Police probe charity funds

The City police fraud squad is expected to launch a formal investigation this week into the disappearance of $8.8m from the Salvation Army.

The heightened level of inquiries comes as investigators continue to search for details of Islamic Pan American Bank, which is named in a writ issued by the charity as part of its efforts to recover the missing funds.

The July 1992 edition of the Bankers' Almanac says that the bank is based in Buenos Aires, with nine representative offices around the world. The bank has been under investigation by the police since last summer and is on the warning list of the US Comptroller of the Currency.

Housing plan to exceed target

A £750m government programme to buy 20,000 empty properties to provide housing for the needy will almost certainly exceed its target, according to figures due to be presented to officials this week.

The scheme to help the depressed British housing market, announced in the Autumn Statement in November, is due to finish at the end of next month. Just over half the 16,500 empty properties acquired so far have been bought from recession-hit housebuilders, according to the housing corporation responsible for administering three quarters of the money.

City's economy set to worsen

Greater London will perform worse than any other UK region this year in terms of economic growth, while Wales will lead the way to recovery, according to a report published today by National Westminster Bank.

The bank warns that UK growth will be "very modest" over the next five years with unemployment expected to come down only slowly from a peak of 3.25m at the end of this year. It warns that demand will be constrained by several negative factors, including large fiscal and trade deficits, high consumer debts and worries caused by job insecurity.

Small firms report upturn

A modest upturn in business confidence is reported in two surveys by the Small Business Research Trust published today. In a survey for Lloyds Bank, 63 per cent of companies questioned said they were stronger or unaffected by the recession. More than half said sales had increased last year and almost as many expected sales to be higher this year.

Tidal power to be developed

A UK team of energy experts is attempting to develop a new way of generating electricity by using the power of tidal currents. First tests will be made this spring off the west coast of Scotland of an underwater 10kw turbine with a four-metre rotor driven by the rise and fall of the tides.

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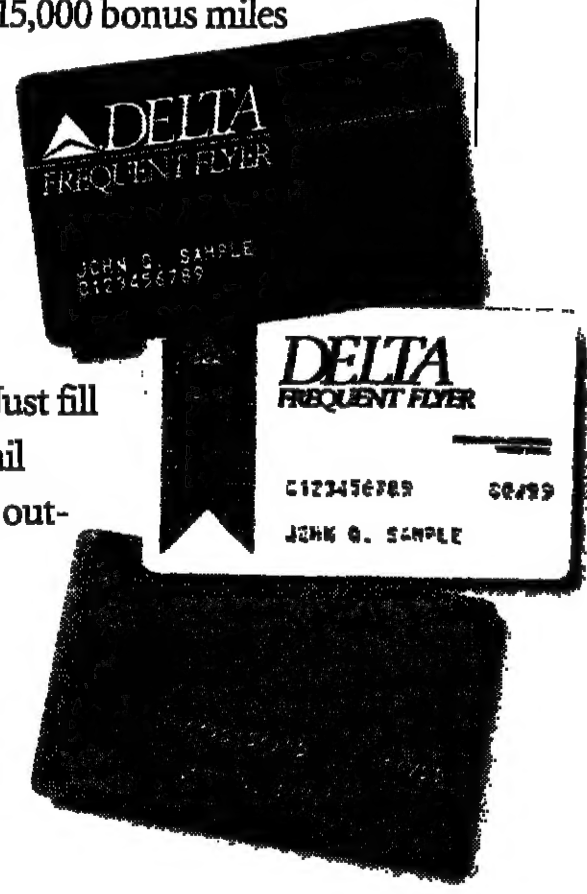

Example Of Mileage Credit Earned Frankfurt To Chicago (Via JFK), In Business Class.

5,000 miles
Enrollment Bonus

11,565 miles
150% of actual mileage from Frankfurt to JFK, round-trip

10,000 miles
Class of service bonus on round-trip Business Class ticket

4,000 miles
200% of mileage from JFK to Chicago, round-trip (Automatic upgrade to First Class as a result of transatlantic Business Class travel.)

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Stay in a participating hotel

1,000 miles
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Christina Lamb describes the ups and downs of doing business amid skyrocketing prices in Brazil

A rollercoaster out of control

So persistently high is Brazilian inflation, that the Central Bank has run out of famous Brazilians to put on its banknotes and resorted to Amazonian fish (there are more than 2,000 varieties).

A good lunch costs more than Cr1m (£39), shops have to ring up large items in parts to fit on the tills and calculators can only be used by dropping three zeroes, despite two changes of currency in the last five years.

This is irritating enough for the average person who has lost all sense of what something should cost and must spend hours each day calculating how best to protect his or her money, consulting the 13 indexes for monetary correction published daily for everything from tax bills to savings accounts. Imagine running a business in such a climate.

Luis Junqueira, financial director of Alpargatas, Brazil's leading footwear and garment company, describes keeping up with inflation which has been above 20 per cent a month for the last 15 months and in four figures for five of the last six years, as: "Feeling like the white rabbit in Alice in Wonderland, always late." He adds: "I have all the textbooks on financial management but may as well throw them down the drain for all the use they are here."

With inflation at 1.25 per cent a day and interest rates considerably higher, a company can be made or broken on its cash management and it is crucial to keep a constant track of money and have a strong credit control department.

Milton de Carvalho Cabral, financial director of Souza Cruz, the Brazilian subsidiary of BAT Industries, says: "Our main challenge is to ensure that money earned from sales all round the country reaches headquarters in Rio as rapidly as possible in order to invest it. An hour lost can be an opportunity gone."

Terms of payment become an important factor. Cabral attributes the financial health of Souza Cruz to the fact that it gives stockists only three to five days to pay. The aim is to have a long lead time in paying suppliers, but fast collection of receivables. Thus retailers often sell products for less than they pay suppliers. If they can sell within 15 days but have 30 days to pay, the cash can be invested for 15 days in the moneymarkets where the real profit is to be made.

As a result, financial divisions tend to carry far more importance than the production or marketing departments. Most leading manufacturers estimate their financial department is at least 40 per cent larger than would be necessary in a low inflationary climate. Autolatina, the holding company for Ford and Volkswagen, has a larger financial department than Ford Europe.

Inflation is nothing new in Brazil – it has been more than 400 per cent a year since 1987 – and companies have developed many mechanisms to survive and prosper. In many cases the core activity has become simply a means of generating cash for financial operations on which the real profits are made.

Eduardo Giannetti da Fonseca, an economist from São Paulo University, explains: "Inflation breaks the connection between what you sow and what you reap. It's a school of opportunism where what matters is financial wizardry rather than supply and demand."

Rather than putting money into the company, cash goes into financial operations. This has had negative repercussions on areas such as marketing, quality, productivity and product development, which could be devastating once Brazil opens up wider to foreign trade.

William Cosgrove, the financial director of Autolatina, complains: "Everyone's working on the constant battle to recover last month's inflation rather than concentrating on competing with Korea."

The effects permeate throughout the company. Jeffrey Brantly, finance director of the Monteiro Aranha group, says: "Everyone becomes a financial person. The marketing person cannot simply sell a product – he must obtain the best terms of payment. The production guy cannot just install a new machine to increase efficiency but must study whether it is better to buy now, later or spread over several payments."

The greatest loser is the consumer. Emerson Kapaz, owner of a toy company, says: "There's this constant race against time so when costs go up 30 per cent prices are automatically adjusted by at least that, thus feeding inflation. It's like a fever." A study by consultants KPMG found that 81.6 per cent of companies listed government measures and inflationary expectations as the most important factors in pricing. Production costs were way down the list.

Moreover, periodic government price freezes (five in the last six years) mean companies fear being caught with prices too low. The longest price validity is 30 days, and companies such as ICI and Autolatina have full-scale price negotiations with unions and suppliers at least monthly – an activity that would occur perhaps annually in other countries.

This is a particular nightmare for the retail sector. Carlos Rocca, president of the leading department store group Mappins, points out the store sells 80,000 different items and must negotiate with 6,000 suppliers on a case-by-case basis. High inflation also militates against companies retaining stocks because of rapid depreciation. The retail sector is a constant battle between wanting a rapid turnover and wanting to keep prices up, without losing out to competitors.

Winners of this situation are oligopolies and cartels given the continuing high import tariffs enabling them to price arbitrarily. According to Fipe, one of the inflation monitoring agencies, oligopolies were responsible for 45 per cent of last year's 1,149 per cent inflation.

The instability generated by a highly inflationary economy means information is at a premium, whether on likely government policy, inflationary trends or the best financial instruments of the moment. There are 13 leading agencies monitoring inflation and former economy ministers make fortunes running consultancies.

The hardest situation is for those running subsidiaries of multinationals, having to calculate in trillions and explain to the parent company the confusing Brazilian accounting system where inflation and monetary correction are often divergent and the impossibility of planning more than three months ahead.

But high inflation also presents an opportunity, particularly with real interest rates often topping 5 per cent a month. Though reluctant to admit it, some companies generate 80 per cent of their profits from financial instruments. There are many businessmen in Brazil who would be sorry to see high inflation end.

Eugenio Staub, president of electronics company Gradiente, says: "Brazil offers the best financial profits in the world," though adding that his company always focuses on the core business.

Most large Brazilian companies have turned into banks with large operating tables where dealers are in electronic contact with the money markets. Autolatina is involved in a network of consortia, providing financing to dealers through capitalisation funds to which both manufacturer and dealer contribute. Particular beneficiaries are those who, through export credits, can raise money overseas at low rates to invest locally. Last year Certificates of Deposit offered a 27 per cent return over international rates.

The financial sector is an obvious winner and makes up 15 per cent of GDP – far more than in most countries. With everything from school fees to gas bills payable through banks, holding the float for a few days can be highly profitable. According to the economy ministry there is $110bn invested in short-term instruments.

So sophisticated is the Brazilian banking system that account holders can invest the money for a day at a time and cheques are cleared within one day.

While Brazilian bankers cheerfully admit inflation is good for business, manufacturers say financial operations simply preserve the value of profits and mask the hidden costs of inflation, not least the erosion of consumer spending power which over the last three years has dropped 10 per cent.

Cosgrove says: "So-called financial profits are accounting gains which do not show the long-term costs. No capital-intensive business likes this climate. We need a three- to five-year lead time but here we can't even forecast six months."

There are compensations. Many directors of multinationals in Brazil have returned to their parent companies in top positions and some such as Citibank are sending their high-fliers to Brazil on the basis: "If you can survive here you can survive anywhere," says Kapaz.

Inflation lessons over a Big Mac

As the site of boot camp for the shock troops in the battle to cope with Russian inflation, few places could outclass Brazil.

That was the conclusion of the McDonald's Corporation. And that is why it sent a group of high-level trainees there for a crash course in how to brave inflation in a country where prices have risen by at least 400 per cent a year since 1987. Last year, Russia's rate of 1,450 per cent was one of the few to top Brazil's astounding figure of 1,149 per cent.

The contingent consisted of three Canadians, including the head of Russian operations, and a native Russian vice-president. The Canadian subsidiary controls the branch in Moscow, where the outlet on Pushkin Square is the fast-food company's busiest.

"They came in search of the tools needed to manage and operate in a hyper-inflationary environment," said Gerson Ferrari, finance director for McDonald's in Brazil. Ferrari led them to multinationals well-versed in adapting to rocketing prices – firms such as Cargill, Goodyear and Kodak.

Ferrari's lesson emphasised cash-flow management, control of raw materials, sales and price-setting strategies and how to hedge for potentially substantial distortions in the exchange rate.

The visitors learned that in Brazil McDonald's negotiates a separate inflation rate for each of its suppliers. It then uses those rates for monthly realignments, instead of applying the government's generic inflation figure across the board. The monthly adjustments for suppliers are "wedded" to periodic price increases for Big Macs, Ferrari said.

Could the McDonald's experience portend a boom in the export of Brazilian "inflationary intelligence" to the troubled economies of eastern Europe? "I think there will be a migration of people in the financial area to those countries," observed Ferrari.

"There are executives in other countries that understand inflation, but the best specialists in this area are the Brazilians."

Bill Hinchberger

Linking values to success

A link between corporate values and good business performance has been claimed by more than one management guru in recent years. So it is perhaps encouraging that a survey* of executive opinion sponsored by the Digital Equipment Company reveals the widespread use of formal mission statements in the UK.

Corporate values are defined as important beliefs widely held to be crucial to the success of an organisation. According to the Digital survey 80 per cent of 429 top managers interviewed last year say they have formal statements, a similar number believe these contribute directly to profitability, and 75 per cent see implementing them as one of their central responsibilities.

Companies' top five priorities – defined both by the relative importance attached to a value and the scope seen for improvement – are people, competitiveness, customers, quality and productivity. More intriguingly their lowest priorities are social responsibility – mainly because there is perceived to be little room for behaving better – and profitability.

The low emphasis on profits sounds like defeatist talk in the midst of a recession. But the authors believe it may be that companies do not really see it as a value as such, or that profitability is the result of a value-driven strategy.

The real test, of course, is whether mission statements are integrated into a company's day-to-day activities. Only 8 per cent of those interviewed openly admitted that corporate values make little practical difference, but 30 per cent confessed that short-term commercial gain gets priority if there is a conflict between the two.

Interestingly the under 40s turned out to be more single minded in the pursuit of profit than their elders.

Copies of Corporate Values: The Bottom Line Contribution. Available from Bob Vickers. Tel 0256 371200.

Tim Dickson

THE WEEK AHEAD

ECONOMICS

Focus on recovery prospects in G7 industrialised nations

ATTENTION remains focused on the US this week, after the unveiling of President Bill Clinton's programme to tackle the budget deficit and stimulate economic recovery.

Although The US January consumer confidence index due tomorrow is expected to be unchanged, the quarterly GDP figures due on Friday are expected to show a 4.5 per cent annualised growth, underlining the strength of the US economy at the time of President Clinton's election.

With the UK also due to publish fourth quarter GDP figures this week, debate continues about the prospects for economic recovery.

Although the GDP is predicted to be slightly down on last year, it is expected to show some improvement over the previous quarter. The CBI's monthly industrial trends survey on Friday will give a more up to date picture of business mood.

The G7 finance ministers will meet in London on Saturday, amid continuing concern over the state of the world's economy, but no communique or decision is scheduled.

Some of the week's economic highlights follow: the figures in brackets represent median forecasts, supplied by MMS International, a financial information company.

Today: UK, fourth quarter GDP (up 0.2 per cent on quarter, down 0.4 per cent on year). US, January Treasury budget ($27bn). France, December current account; January official reserves. Canada, seasonally adjusted December retail sales (up 0.6 per cent on month), December department store sales (up 0.5 per cent on month).

Tomorrow: US, Federal Reserve Board chairman Alan Greenspan gives Humphrey Hawkins testimony to House banking subcommittee; January consumer confidence index (77 per cent). UK, quarterly analysis of long term unemployment.

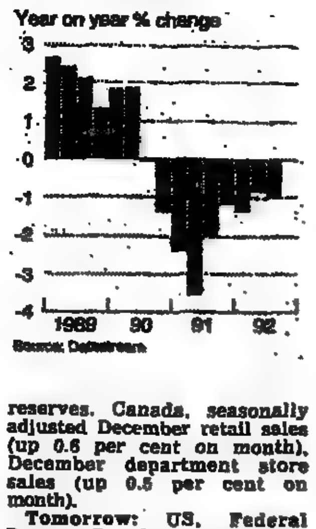
Wednesday: US, President Clinton meets British Prime Minister John Major; January durable orders (down 2.3 per cent), shipments, auto and truck sales February 11 to 20. Canada, December wholesale trade (up 0.4 per cent on month); France, fourth quarter GDP (down 0.2 per cent).

Thursday: Belgium, EC ministers discuss steel industry. Germany, banking sector wage talks third round. UK, January trade balance with non-EC countries (£1.3bn deficit). US, money supply week ending February 15, initial claims week ending February 13, January existing home sales. Canada, January industrial production price index (up 0.3 per cent on month).

Friday: US, Fourth quarter preliminary GDP (up 4.5 per cent), deflator (1.7 per cent); February Chicago purchasing managers survey; January export prices, import prices. UK, CBI monthly industrial trends survey. Japan, February Tokyo consumer prices (up 1 per cent on year), February national consumer prices (up 1.3 per cent on year); January industrial production (up provisional 0.7 per cent). France, January consumer prices (up 0.3 per cent on month, 2.2 per cent on year).

Saturday: UK, G7 finance ministers meet in London.

During the week: Italy, December wholesales prices (up 2.5 per cent on year), producer prices (up 2.4 per cent); January M2 (5.8 per cent); January trade balance. Germany, import prices (0.2 per cent month on month, down 2 per cent year on year), preliminary cost of living (up 0.3 per cent on month, 4.1 per cent on year.)



Gillian Tett

RESULTS DUE

IMPERIAL Chemical Industries, the UK's largest manufacturer, reports its preliminary year-end results on Thursday, and pretty grim reading they will make. Hoare Govett expects the group to report fourth quarter pre-tax profits of only £27m, making a total of £550m for the year. That compares with £843m in 1991 and the peak of £1.5bn in 1989.

The poor results will be immaterial compared with the announcement of the board's decision whether to sunder the company in two. The aim is to make Zeneca, the pharmaceuticals, agrochemicals and specialities subsidiary, into a separately quoted company.

SmithKline Beecham, the Anglo-American drugs and consumer products company, reports preliminary year-end results tomorrow. Analysts expect pre-tax profits to rise up to 18 per cent to between £1.11bn and £1.125bn, against £1bn a year earlier.

Unilever, the Anglo-Dutch food and consumer products group, is expected tomorrow to report that pre-tax profits for the full year break through the £2bn barrier, an improvement of 13 per cent on the previous £1.79bn.

British Aerospace expects to see a revival in its fortunes during 1993 following a year in which its performance was undermined by £1bn of provisions. Hopes for a return to profit, however, will do nothing to soften the impact of its preliminary results on Wednesday. These are likely to show losses of about £1.1bn compared with losses of £81m a year earlier.

Restructuring charges of £950m in the regional aircraft division have been blamed largely for the hole. The company is due to pay a deferred interim dividend of 3p on Thursday, and a further 3p dividend is expected in the final results.

The mild weather and new regulatory regime imposed by Ofgas is likely to be reflected in the final results for British Gas. The company is expected to announce on Thursday that profits have slipped to around £900m compared with a £1.16bn last time. Increased competition and lower prices for domestic gas sales may also reduce the company's scope for a substantial increase in dividend. A pay-out of about 14p is expected, against 13.4p last year.

Royal Dutch Shell will report its preliminary year-end results on Thursday when a small increase in profits is expected of up to £3bn compared with £2.89bn for 1991. The company is likely to raise its dividend in line with inflation to about 22p from 20.9p last time.

Royal Insurance is expected to report a sharp fall in its pre-tax losses when it unveils its 1992 results on Thursday. Losses should amount to between £105m and £137m, compared with a deficit of £373m in 1991. A dividend of 5p is forecast.

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Abbey National Treasury Services 5⅝% Gtd. Nts. 1995 $58.25
Amdahl $0.025
Argyll Group 3.55p
Barclays Bank Und. Fltg. Rate Prim. Cap. Nts. Ser.2 $187.29
Bradford & Bingley Bldg. Scty. Sb. Fltg. Rate Nts. 2005 £201.84
Bulmer (HP) 3.75p
Can. Imperial Bk. of Commerce Fltg. Rate Sb. Cap. Db. 2085 $187.29
Chugoku Elect. Power 7% Nts. 1997 $350.0
Oruck 3.4p
Electra Inv. Tst. 3.4p
Euro Disney FFr0.68
Exchequer 12½% 1994 £6.25
HongKong & Shanghai Banking Prim. Cap. Und. Fltg. Rate Nts. (Ser.1) $128.[illegible]
Jusco 8% Stg/US$ Payable Cv. Bd. 1998 £80.0
MBE Fin. Gtd. Dual Basis Bd. 2002 $10000.[illegible]
MBL Fin. 8⅝% Gtd. Bd. 2001 $862500.0
New Zealand Fltg. Rate Nts. 1993 $173.44
NFC 7¾% Cv. Bd. 2007 £24.76
Nova Scotia (Province of) 11⅝% Bd. 1995 C$116.25
Security Pacific Fltg. Rate Sb. Cap. Nts. 1997 $127.78
Seeboard 5.7p
Shelton (Martin) 0.75p
Trustco Fin. 11½% Sev. Db. 2016 £5.75
TSB Offshore Inv. Fd. Ptg. Rd. Pf. Gilt & Fxd. Int. 1.165p
Do. Ptg. Rd. Pf. Stg. Dep. 2.3p
UK 9⅛% Bd. 2001 Ecu91.25
Wagon Indl. 6.325p
Watson & Philip 9.1p
Wells Fargo Fltg. Rate Sb. Nts. Feb.1997 $137.08
Westland 3p
Westpac Banking Sb. Fltg. Rate Nts. 1997 $192.71

■ TOMORROW
Devenish (JA) 6.35p
Leeds Permanent Bldg. Scty. Fltg. Rate Nts. 1997 £185.28
Lon. & Clydeside 2.7p
Nationwide Bldg. Scty. 4⅛% I.L. Ln. 2024 £2.7768
Pilkington 2.93p
Seiyu Europe 5.65% Gtd. Bd. 2000 Y792589.0
Skandinaviska Enskilda Banken 10¾% Cap. Nts. 1995 DKr1075.0
Treasury 2½% IL 2011 £2.33

■ WEDNESDAY FEBRUARY 24
Andrews Sykes 1.4p
Burton 8% Cv. Un. Ln. 1996/2001 £4.0
Caisse Centrale des Banques Populaires Fltg. Rate Nts. 1993 $50753.33
Commonwealth Bk. of Aust. Und. Fltg. Rate Nts. (Ex. Fltg. Rate) July 1988 $181.96
Denmans Elect. 4.3p
Gold Fields Prop. R0.32
London Elect. 5.8p
Multitone Elect. 1.5p
New Wits R0.17
Northern Rock Bldg. Scty. Fltg. Rate Nts. 1994 £188.64
Royal Bk. of Can. C$0.29
South Wales Elect. 6.6p
Triplex Lloyd 2.5p
Vogels Metal R0.29

■ THURSDAY FEBRUARY 25
Aluminum Co. of Amer. $0.40
Bk. of Montreal C$0.55
Banque Natl. de Paris 9⅝% Nts. 1998 $98.25
Bespak 4p
British Land 2.28p
Burtonwood Brew. 0.7p
Eaton Corp. $0.55
Gartmore Scot Inv Inc 2.4p
Do. Package Units £8.0
Grosvenor Inns 2p
New Throgmorton Tst Inc 1.5p
RHM 8⅛% Un Ln '90/94 £4.0625
Do. 8⅞% Un Ln '91/95 £4.4375
Treasury 8¾% 2017 £4.375

■ FRIDAY FEBRUARY 26
Allied-Lyons 8.85p
Anglian Water 6.8p
Archer (AJ) 2.2p
Avon Rubber 11.5p
Bk. of Nova Scotia Fltg. Rate Sb. Cap. Db. 2085 $189.58
Bk. of Scot. Und. Var. Rate Nts. $119.17
Beales Hunter 2.45p
Bertam 2.5p
Bradford & Bingley Bldg. Scty. Fltg. Rate Nts. 1994 £181.56
Burndene 10p
Burton 1p
Cable & Wireless 4.75p
Cater Allen Equity Growth Fd. Ptg. Pf. 11p
Do. Gilt & Futures Fd. Ptg. Pf. £40.0
Do. Gilt Inc. Fd. Ptg. Pf. 30p
Chase Manhattan Fltg. Rate Sb. Nts. 1997 $100.83
Chemical Banking Fltg. Rate Senior Nts. 1999 $40.83
City of Oxford Inv. Tst. 1.2p
Collateralised Mortgage Sec. (No.7) Class A1 Mtg. Bckd. Fltg. Rate Nts. 2028 £119.48
Do. Class A2 £191.12
Do. Class A3 £193.63
Do. (No.9) Class A1 Mtg. Bckd. Fltg. Rate Nts. 2035 £93.41
Do. Class A2 £191.12
Do. Class A3 £193.08
Contra-Cyclical Inv. Tst. 2.25p
Gen. Motors Acceptance Corp. of Can. Fltg. Rate Nts Nov. 1998 C$486.90
Glasgow Inc. Tst. 1.4p
Grand Central Inv. 0.45p
Great Western Fin. $0.23
Greencore IR5p
Halifax Bldg. Scty. Fltg. Rate Ln. Nts. 1996 (Ser.A) £25.48
Kenwood Appliances 1.5p
Lee (Arthur) 4.25p
Lloyds Bank Prim. Cap. Und. Fltg. Rate Nts. (Ser.2) $99.31
Do. (Ser.3) $188.32
Lloyds Eurofin. Gtd. Fltg. Rate Nts. 1996 £92.95
Manuf. Hanover Tst. Fltg. Rate Sb. Cap. Nts. 1994 £91.07
Merchants Tst. 2.65p
Midlands Radio 1p
Mining & Allied Supplies 0.5p
Mitsubishi Bank Fltg. Rate Sb. Ln. Ptpcn. Certs. 2000 $1023.61
Morgan Grenfell Und. Prim. Cap. Fltg. Rate Nts. $202.22
Murray Int. Tst. 2.6p
M & W 1.5p
NatWest Bank 7% Cm Pf 2.45p
Do. Und. Var. Rate Nts. (Br $10,000) $119.17
Do. Prim. Cap. Fltg. Rate Nts. Ser.C $97.79
Nationwide Bldg. Scty. Fltg. Rate Nts. Feb.1993 £179.57
Do. Fltg. Rate Nts. 1998 (Ser.2) £25.48
Neste Fltg. Rate Nts. 1994 $265.42
New Brunswick (Province of) Fltg. Rate Nts. May 1994 C$20.63
New Zealand Fltg. Rate Nts. 1997 £92.16
North West Water 7.13p
Olim Conv. Tst. 4.6p
Ossory Ests. 12.5% Bd. 1998 £15880.26
Rugby Gtd. Fltg. Rate Nts. 1998 $10156.67
Royal Bk. of Can. Fltg. Rate Db. 2005 $25.28
Royal Bk. of Scot. 8p
Sage 5p
Second Market Inv. 2½% Cv. Un. Ln. 1994 £1.25
Southend Prop. 1.52p
Sphere Inv. Tst. 0.85p
Standard Chartd. Sb. Fltg. Rate Nts. 1995 £[illegible]
Temple Bar Inv. Tst. 6% Cv. Un. Ln. 2002 £3.0
3i Int. Gtd. Fltg. Rate Nts. 1994 £18.23
TMC P.I.M.B.S. Fifth Fin. Ord. Class Nts. No.6 Aug. 2028 £132.19
Do. No.1 Aug. 2030 £183.28
Do. Seventh Fin. Class A Nts. No.8 Aug. 2031 £179.16
Do. Class B No.8 Aug. 2031 £197.02
Toray Inds. Fltg. Rate Nts. 1997 Y101427.0
TR City of Lon. Tst. 1.19p
Do. 20% N/Cm. Pf. 7p
Do. 6% Cm. 1st Pf. £2.10
Do. 6% N/Cm. 2nd Pf. 2.1p
Treasury 10% 2001 £4.875
TSB Var. Rate Sb. Nts. 2003 £191.37
Turkey Tst. 5p
USLIFE $0.30
Wells Fargo Fltg. Rate Sb. Nts. 2000 $40.83
Woolwich Bldg. Scty. Fltg. Rate Ln. Nts. 1995 £185.89
Do. Sb. Fltg. Rate Nts. 2001 £5939.93
Zetters 4p

■ SATURDAY FEBRUARY 27
Eksportfinans 8¾% Nts. 1998 Ecu87.50
Treasury 9¾% 2002 £4.875

■ SUNDAY FEBRUARY 28
Allnatt Lon. Props. 10½% 1st Mtg. Db. 1994/99 £5.25
Bankers Inv. Tst. 0.85p
Caspen Oil 11% Cv. Un. Ln. '94/97 8.02p
Cigna O'seas Fin. 13% Un. Ln. 2008 £6.50
Derby Tst. Inc. 8.4087p
Ecclesiastical Ins. 13% Db. 2018 £6.50
Electricite de France 12½% Gtd. Ln 2002 £12.50
Excalibur 11½% Cm. Pf. 5.75p
Gibbon Lyons 7% Cv Pf 3.5p
Global Assets DM Bd. Ecu0.05
Do. DM Liquid Assets Ecu0.075
Do. Yen Bd. Ecu0.035
Do. Yen Liquid Assets Ecu0.025
Do. Pacific Basin Equity Ecu0.007
Do. Stg. Bd. Ecu0.05
Do. Stg. Liquid Assets Ecu0.06
Do. UK Equity Ecu0.016
Do. US$ Bd. Ecu0.05
Do. US$ Liquid Assets Ecu0.05
Lon. & St. Lawrence Inv. 5% Cm. Pf. 1.75p
Lon. & Strathclyde Tst. 5% Cm. Pf. 1.75p
Parkland Textile 4.2% Cm. Pf. 2.1p
Prowting 14½% Cm. Pf. 7.25p
RPH 8% Db. 1992/96 £4.0
Do. 4½% Un Ln '04/09 £2.25
Do. 9% Un Ln '99/04 £4.50
3i 8¾% Un Ln '92/97 £4.4375
TR Far East Inc Tst. 7% Db. '97/2002 £3.50

PARLIAMENTARY DIARY

■ TODAY
Commons: Questions to National Heritage ministers, Public Accounts Commission, Commons Commission and Commons Leader. European Communities (Amendment) Bill, committee.
Lords: Food Protection (Emergency Prohibitions) (Oil and Chemical Pollution of Fish) Order. Local Authorities (Recovery of Costs for Public Path Orders) Regulations. Debate on Licensed Betting Offices (Amendment) Regulations. Debate on domestic water metering.
Select committee: public accounts, subject: major projects statement 1991. Witness: Dr Malcolm McIntosh, chief of defence procurement, ministry of defence (4.30, room 16).

■ TOMORROW
Commons: Health questions. Questions to the prime minister. Debate on international peacekeeping.
Lords: Housing and Urban Development Bill, second reading. Debate on adult education.
Select committee: foreign affairs, subject: role of the united nations. Witness: Ambassador Sahoun, former special representative of the UN in Somalia (4.30, room 15).

■ WEDNESDAY
Commons: Environment questions. Debate on the Army.
Lords: Debates on the economic and social consequences of government policies, and the transfer of Royal Naval jobs.
Select committees: environment, subject: housing corporation. Witnesses: national federation of housing association officials (9.15, room 21).
Parliamentary commissioner for administration, subject: reports of the health service commissioners for 1991-92. Witnesses: south west Thames regional health authority, Tayside health board (10, room 16).
Foreign affairs, subject: Europe after Maastricht. Witness: Lord Lawson of Blaby (10.30, room 8).
Agriculture, subject: changes in the hill livestock compensatory allowance. Witnesses: UK agriculture departments. (10.45, room 20).
Home affairs, subject: legal aid, the Lord Chancellor's proposals. Witnesses: Bar Council and Law Society (11.00, room 15).
Education, subject: special educational needs. Witnesses: association of educational psychologists, national association for special educational needs. (4.10, room 18).
Employment, subject: unemployment levels and "workers". Witness: Mrs Gillian Shephard, employment secretary (4.15, room 8).
Health, subject: community care. Witnesses: Institute of health services management; association of directors of social services (4.15, room 21).
Home affairs, subject: legal aid, the Lord Chancellor's proposals. Witness: Lord Mackay of Clashfern, Lord Chancellor (4.30, room 15).
Treasury and civil service, subject: European community monetary and budgetary matters. Witnesses: Bank of England officials (4.30, room 20).

■ THURSDAY
Commons: Agriculture questions. Questions to the prime minister. European Communities (Amendment) Bill, committee.
Lords: Clean Air Bill, committee. Radioactive Substances Bill, committee. Charities Bill, committee. Welsh Language Bill, third reading. Debate on the problems of carers.

■ FRIDAY
Commons: Backbench business — Debate on civil rights for the disabled.
Lords: Not sitting.

UK COMPANIES

■ TODAY
COMPANY MEETING:
Devenish (J.A.), Brewers Hall, Aldermanbury Square, E.C., 12.00
BOARD MEETINGS:
Finals:
Baldwin
Caplin
Low & Bonar
Interims:
Ashtead
Channel Hldgs.
Ercol Furniture
FII Group

■ TOMORROW
COMPANY MEETINGS:
[illegible] Inv. Trust, Gerrard House, 21-26, Gresham Street, E.C., 12.30
Grand Metropolitan, Grosvenor House Hotel, W., 11.00
Kershaw (A.), 8, Connaught Place, W., 12.00
London & Clydeside Hldgs., 1, Park Quadrant, Glasgow, 12.00
BOARD MEETINGS:
Finals:
Admiral
American Trust
Amstrad
East German Inv. Tst.
M & G [illegible] Inv.
M & G Recovery Inv. Tst.
McAlpine (A.)
Pacific Assets
Pervasic
Scottish Eastern Inv.
Sedgwick
Shires High-Yielding Smaller Co's
SmithKline Beecham
Unilever
Updown Inv.
Interims:
European Smaller Co's
Henderson Eurotrust
Multitrust
Murray Int. Trust
River & Mercantile Tst.
TR European Growth Tst.

■ WEDNESDAY FEBRUARY 24
COMPANY MEETINGS:
Abbey Panels Invs., Sheraton Skyline Hotel, Bath Road, Hayes, Middlesex, 12.00
First Natl. Finance Corp., Plaisterers Hall, 1, London Wall, E.C., 12.00
Helene & [illegible], [illegible] House, (Oxford) Road, High Wycombe, 10.00
Rank Organisation, Gloucester Hotel, Harrington Gardens, S.W., 11.30
BOARD MEETINGS:
Finals:
British Aerospace
Dalkeith
Dunedin Inc. Growth
Hotspur Inv.
Interims:
JF Pacific Warrants
Jos Hldgs.
Pacific Horizon Inv. Tst.
Primadona

■ THURSDAY FEBRUARY 25
COMPANY MEETINGS:
Electronic Data Processing, Tapton Masonic Hall, Shore Lane, Sheffield, 12.00
Midlands Radio, Royal Int. Moat House, Wollaton Street, Nottingham, 12.00
Nestronics Technology, Pearse House, Parsonage Lane, Bishops Stortford, 10.30
RCO Hldgs., 20, Old Bailey, E.C., 3.00
BOARD MEETINGS:
Finals:
British Gas
Capital & Counties
ICI
London Forfaiting
Martin Int. Green Inv.
Micro Focus
Murray Int. Tst.
Provident Financial
Royal Insurance
Shell
Smaller Co's Inv. Tst.
Telegraph
Tottenham Hotspur
Transatlantic Hldgs.
Interims:
Macro 4
Rotaprint
Usher (Frank)

■ FRIDAY FEBRUARY 26
COMPANY MEETING:
Black & Edgington, The Registry, Royal Mint Court, E.C., 10.00
BOARD MEETINGS:
Finals:
Alexanders Hldgs.
Greenwich Comms.
WOCO
Interims:
BBB Design
de Morgan
Goodwin
Jacksen
[illegible]
Waterman Partnership

■ SUNDAY FEBRUARY 28
COMPANY MEETING:
NFC, Royal Concert Hall, Nottingham Centre, Nottingham, 11.00

Company meetings are annual general meetings unless otherwise stated.

Please note. Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

Storing public records

KYLE STEWART has won a £34m contract for the new Public Record Office at Ruskin Avenue, Kew.

The contract comprises four works sections; the construction of the new building which will provide 12 self-contained repositories of 15,000 sq metres containing 90 kilometres of mobile shelving, as well as offices, conference and training facilities, conservation laboratories and the refurbishment of the existing building including enlarged public restaurant document search room and the relocation of the reference library.

The new Public Record Office will reinforce and improve Kew's reputation with continued emphasis on the preservation of documents and their availability to the public.

Work has started and the 174 week contract is scheduled for completion in June 1996.

The four-storey building will have a total floor area of 27,000 sq metres and will be constructed of an in situ reinforced concrete frame clad in buff coloured precast stone panels. The pitched roof will be finished in Welsh slate.

The building will be fully air-conditioned and the repositories, which have stringent environmental requirements, will be separated from other areas by atria.

A computer controlled car and track system will also be installed for document transfer between the repository and the search rooms. Extensive landscaping will assist in the integration of the existing building with the extension and provide an appropriate civic setting at the Thamesside location.

Motorway work

KIER CONSTRUCTION has acquired the rights to the M74 contract in Strathclyde following the receivership of LLC Realisations (formerly Lilley Construction).

Kier, on behalf of Strathclyde Regional Council, will complete work on the £17m contract of which about £9.7m is outstanding. The project is funded by the Scottish Office.

Apartments in Abu Dhabi

Following six months of negotiations, JOHN LELLIOTT INTERNATIONAL has been awarded two overseas contracts approaching £100m. The first is for the construction of a 24-storey luxury development on the Abu Dhabi Corniche.

The project, valued at £60m consists of 20 levels of apartments, four levels of retail space and four levels of underground car parking, was negotiated with representatives of His Highness Shaikh Saife bin Mohamed Al Nahyan. Negotiations continue for a second project in Abu Dhabi for a 22-storey block of offices in Hamdan Street valued at £40m.

Lelliott attribute their success in part to a pioneering approach to the design of the project using fast track techniques based on the use of a steel structure, a method of construction little in evidence in the UAE in recent years.

Work is scheduled to commence on site in May 1993 and is to be completed in 22 months.

The second contract is a resort development in St Lucia, West Indies, where agreement has been concluded with New Century Developments Inc, New York, US in respect of a hotel, casino, golf course and villa complex valued at US$49m (£33.8m).

The construction management agreement, which is in joint venture with Balfour Beatty Inc, is set to commence in June. The development is designed on a high quality/low maintenance specification.

£60m American bridge development

BALFOUR BEATTY, based at Thornton Heath, Surrey, has received its largest-ever civil engineering contract in the United States with an US$86m (£60.1m) award to replace a rail viaduct and drawbridge in Bridgeport, Connecticut with new and partially refurbished structures.

The project for the Metro North Commuter Railroad involves the replacement of Peck drawbridge and the refurbishment of Bridgeport viaduct which together carry passenger trains on the line running from New York to Boston as it passes over the Pecquonock river.

A temporary crossing of the river will be constructed to carry two lanes of rail traffic during the demolition and while the rebuilding work programme is in progress.

Once the temporary crossing is fully operational the drawbridge will be completely demolished while the viaduct will be dismantled in stages.

The new 1.25km structure will be constructed using concrete and structural steel. The contract is scheduled for completion in 1998.

Building conference centre in India

The BOVIS INTERNATIONAL construction company has been awarded its first contract in India, a construction consultancy role on the building of a US$25m (£17.5m) hotel and conference centre in the city of Agra.

The P&O Group company's client for the two-year project is Jaiprakash Industries Ltd, one of India's largest business conglomerates, with interests in property and construction.

Situated in northern India, and home of the Taj Mahal, Agra is already an established tourist destination and has a thriving business community.

Building work on the 230 bedroom, five star hotel and adjoining conference centre begins in the spring with Bovis International supplying a construction consultancy team who will provide design management and building expertise, particularly in obtaining high quality finishes on all exposed surfaces throughout the project. The company also has work under way in Europe, Asia and South America.

Central ordnance depot at Donnington

TRAFALGAR HOUSE CONSTRUCTION companies have won £38m worth of new work in two construction management contracts in the UK and the US.

Trafalgar House Construction Management has won a three-year contract managing an estimated £15m of works services at the Army's central ordnance depot at Donnington, near Telford.

Work at the base will involve controlling and managing the electricity supply, water supply and disposal, boilers, roadways, landscaping and maintaining the fabric of the buildings.

Trafalgar House Construction's US subsidiary, Federal Construction, has won a £13.5m management contract for the runway extension project at southwest Florida regional airport in Fort Myers.

The 1,090 metre extension of runway 6-24 will increase its overall length to 3,636 metres.

Mixed batch awarded to Lovell companies

Companies within the construction division of the LOVELL GROUP have won contracts valued at over £30m.

Within this total Bullock Construction has gained £20m worth of new work. The largest portion of this is a three-year term agreement involving building and civil engineering works for Zeneca, the newly-formed ICI subsidiary, in connection with the pharmaceuticals and specialties business. The contract, which covers operations at several locations in the north west, has a total projected value of £16.5m and increases the period of continued service to ICI to about 23 years.

Walter Lilly has won contracts in excess of £1m including further work for Nestlé at Hayes and additional bomb damage restoration at the Baltic Exchange in the City.

PEOPLE

Big business comes to town. Sir Allen Sheppard, chairman of Grand Metropolitan, chaired the first board meeting last week of London Forum, a group of business leaders who want to help promote London overseas. Seated to the right of Sir Allen are Jan Hall, chief executive of Coley Porter Hall, and Michael Howard, the environment secretary. Back row from left: Brian Pearce, chairman Pearce Signs; Clyde Williams, chief executive WWA; Nigel Fox-Bassett, senior Partner Clifford Chance; Sir Brian Jenkins, senior partner Coopers & Lybrand; Sir Idris Pearce, chairman English Estates; Sir David Scholey, chairman S G Warburg, and Sir Colin Marshall, chairman British Airways.

The other members of the board are Sir Hugh Bidwell, chairman London Tourist Board, Sir Brian Wolfson, chairman Wembley, Sir Christopher Bland, chairman LWT, Harvey Goldsmith, director Allied Entertainments, David Goldstone, chairman Regalian Properties, Ian Reeves, chairman Highpoint and Maurice Saatchi, chairman Saatchi & Saatchi.

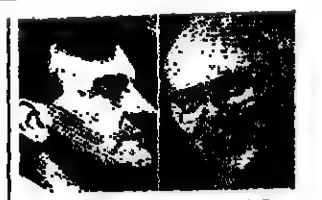
For the first time since the summer of 1991, Saatchi & Saatchi will have a finance director on the main board. Wendy Smyth, who has been chief financial officer, is promoted with effect from April 1.

Charles Scott, who joined the company at the same time as Robert Louis-Dreyfus in January 1990 and helped steer it through a period of much-needed restructuring, had been finance director until July 1991. He then became chief operating officer but retained board-level responsibilities for finance as well. Now Louis-Dreyfus has departed for Adidas, and Scott has stepped up to become chief executive.

The company says that the title of chief operating officer has been lost; it had been appropriate when Scott was sorting out the individual operating units, "but now that task is completed and we are paired down to a minimum," according to a spokeswoman .

Smyth, 39, who trained at Thomson McLintock, joined Saatchis in the US in 1982, before becoming UK regional finance director in 1984. Between 1986 and 1989 she was finance director of Saatchi & Saatchi Advertising International, and then held the same position in the communications division.

Saatchis will in fact be without a finance director for another three months because in late March Smyth goes on maternity leave – timed when it had been expected that Louis-Dreyfus would stay until June. Her responsibilities will be spread around the finance department, although the break comes at a quiet time, after the year's results are announced on March 9.



Sir Christopher Hogg (left), chairman of Courtaulds, has been appointed to the board of SMITHKLINE BEECHAM on the resignation of Alain Gomez, chairman and chief executive of Thomson SA. Sir Archibald Forster (right), recently retired chairman and chief executive of Esso UK, has been appointed a non-executive director at UNITED NEWSPAPERS.

■ Frank Amhurst has retired from HARMONY LEISURE.

Ayling changes his crew

Valerie Scoular, general manager of British Airways' ground operations in London, has been promoted to be director of human resources. She will be responsible for the administration and development of 49,000 staff.

Scoular's promotion is part of the second big reorganisation of BA's marketing and operations team in less than 18 months. The last time the changes were precipitated by the abrupt departure of BA marketing chief Liam Strong to become chief executive at Sears. This time they have been triggered by the promotion of Robert Ayling, Strong's successor at BA, to be group managing director.

Ayling has taken the opportunity to reorganise his old marketing and operations department. In addition to the existing flight operations, human resources and engineering and information management departments, Ayling has set up seven new units: regions and sales; marketing; network management; operations; service delivery; cargo and business units.

Scoular, 37, who joined BA as a graduate trainee in 1977, is taking over the human resources part of the job being done by John Watson, director of human resources and information management. Brian Haydon, the current deputy, has been made director of information management. Meanwhile, Watson has been appointed director of regions and sales and takes charge of the airline's sales activities worldwide as well as regional management.

Among the other new appointments are Mike Street, director of service delivery; Kevin Hatton, director, cargo; and Mike Batt, director of marketing. BA is looking for a head of business units, who will be responsible for airline subsidiaries.

However, Ayling's new empire is not as big as it sounds. BA has confirmed that Sir Colin Marshall, the new chairman, retains direct executive responsibility for finance, corporate strategy, safety, security and environment, health services, company secretariat, legal, communications and public relations. The respective directors and heads of these departments report directly to him.

ARTS

Architecture/Colin Amery

Making London better

The facts about the new Chelsea and Westminster Hospital are pretty extraordinary. It is the only brand new urban teaching hospital in Britain. It is described as the largest and most ambitious hospital development in the UK. It has 70 different departments, 665 beds, eight operating theatres and 260 bedrooms for nursing staff. It was planned and built in five years – a record for the NHS. The building cost £117m to construct. It opens in London as the government announces plans to close several London hospitals because there are too many hospital beds in the capital…

The new hospital is situated on the site of the old St Stephen's Hospital in the Fulham Road. The old hospital had grown from the infirmary of the former St George's Union Workhouse and no tears were shed when it was decided to demolish it. But tears were shed by some over the decision to close four hospitals – Westminster Hospital, Westminster Children's Hospital, the West London Hospital and St Mary Abbots Hospital and to bring all the services they offered to the new site at the congested end of the Fulham Road, surrounded mainly by streets of modest houses. This was very much an estate management manoeuvre of the 1980s which depended for its success on the willingness of property developers to buy the old hospital sites to fund the new building.

Architects for the new development were chosen by the Riverside Health Authority through a form of limited competition, which was won by the firm Sheppard Robson (the partner in charge of the scheme was Sinclair Webster). In many ways the new hospital represents the new style NHS. I was fascinated to learn that the architects were chosen not so much because they had designed lots of hospitals (they hadn't) – but because they had plenty of commercial experience and were ready to design for a "fast track approach".

Sheppard Robson has a record of competence in the design of research laboratories, universities, shopping centres, offices and housing. At Triton Court, Finsbury Square, it designed the most agreeable and successful large atrium in the City. Its work at Royal Mint Court is perhaps less successful. As a well established British firm that has successfully operated in both the public and the private sectors, it was particularly well placed to plan the first of a new generation of hospitals.

The brief called for a very large building on a site that is surrounded by small-scale houses and shops and suffers from a planners' height restriction. The unusual decision was made to incorporate shops (as yet unlet) on the Fulham Road entrance front, and to design the whole hospital around a huge glazed atrium which is like an indoor street. It is naturally lit and ventilated, using the power of the sun and the heat loss from the surrounding building. The atrium is the most remarkable element of the design and is something of a *tour de force* as a unifying element in the whole hospital.

You enter the hospital beneath a faintly absurd Teflon canopy on the Fulham Road and proceed through the slowly revolving doors, as though you were going into a supermarket. Wheelchairs and zimmer frames can be accommodated by the moving doors. The main reception desk commands the entrance to the atrium and is manned by friendly attendants. (It seemed to me that the success of the whole hospital depends on the patience of the staff on the main desk. Because of the size of the hospital they are going to be asked for directions 24 hours a day.)

The huge white atrium, with lifts and escalators, defines the centre of the building, but the actual circulation, and finding your way, still depends largely on signs and graphics. These are definitely inadequate and, much as the architects may deplore the spread of the handwritten notices, they will soon be everywhere. I was amazed how difficult it was to read the signs and felt initially as confused as I do in an airport. Because the architecture is so uniform and the overall colours so bland, there are few markers to guide the visitor or the patient. Also, people are so preoccupied in hospitals that they get lost much more often than they do in other buildings, and so need more help from the architecture rather than less.

But in the atrium you do not feel as though you are in a hospital at all. It is an enjoyable place to be and the idea of inserting separate small buildings into the space – such as the chapel and the dispensary – adds a little human scale. There is also a great deal of art around the place, some good and some terrible. On the whole the paintings are better than the sculpture, especially the waterfall series by Mel Chantry. Giant trees help to furnish the atrium but at the same time contribute to the sense of unreality; they have to be lit by special lights and will need a lot of care.

When you reach the waiting areas for the out-patients they come as something of an anticlimax after the brilliant height of the atrium. These low spaces, filled with ghastly NHS furniture that must have been a job lot from the 1950s, often have no views of the atrium and not much light. The wards are fairly standard, with groups of six or eight beds separated from the staff areas by low walls. The ward floors work well with a sense of semi open-plan allowing a fair degree of privacy. Again the furniture is disappointing – Parker Knoll of the '50s reigns supreme.

I am sure that patients well enough to totter about will make for the atrium all the time because it brings a light and elegant dimension to the whole hospital. Its lighting is stylish and there is constant activity, and the whole idea of making one big space for all the vertical and horizontal circulation is a brave one. The size of the hospital was not the architects' decision; it could be overwhelming, especially to the elderly finding their way about unescorted.

From the outside the design of the main building is orderly and controlled and fits a great deal on to a small site as unobtrusively as anyone could expect. I would not want the great chimney at the bottom of my expensive Chelsea garden, but I do feel that the architects have done their very best to be good, if large, neighbours.

Is this the first of a series, or the last of a line of NHS hospitals? I would have thought that patients prefer smaller hospitals, less enclosed worlds for medicine, and less evidence of the scale of the vast NHS bureaucracy.

There is one completely marvellous thing in the new hospital. Not so long ago a wise chaplain of the Westminster Hospital acquired a magnificent painting of the resurrection by Paolo Veronese (1528-1588), which has now been moved with its glorious gilt frame to the chapel at the heart of the new hospital. It is of such superb quality that, in every way, it outscales its surroundings.


The canopy over the Fulham Road entrance of the new Chelsea and Westminster hospital

BBC Symphony

A bright baton

Friday's BBC Symphony concert was exciting to hear on Radio 3 – even more, no doubt, in the Festival Hall. That was not only because the peerless Hakan Hardenberger played Peter Maxwell Davies' recent trumpet concerto, but because the conductor Eduardo Mata had bright, unexpected ideas about his otherwise hyper-familiar programme.

At the start, his crisp, punchy reading of Mozart's "Haffner" Symphony gave notice that this was not to be a run-of-the-mill concert. Mata is Mexican, and like most musicians from the Hispanic world he prefers rhythms to be extremely taut: not rigid, for (as we were to hear in his Ravel) he likes bold rubato nuances too, but precise and snappy. It was delightful, for once in a way, to hear Mozart's Andante sped along with such unhesitating energy.

The Davies concerto, a sort of mini-opera with the trumpet in the role of Saint Francis, was an experience in itself. Hardenberger's virtuosity is of the gleaming, well-honed kind, where the dedicatee of the work, John Wallace, cultivates a greater variety of quasi-vocal sounds and shadings; but as the piece proceeded toward its visionary close, Hardenberger's fantastic security (the part is taxing to the nth degree) established its own spell.

Mata drew marvellous colours from the orchestra. The long passage in which a dark brass chorale evolves over a darker bass pedal, while marimbas and glockenspiel twinkle above like sunlight on Orcadian waves and the trumpet soars in high, slow phrases, was memorably beautiful. Easy to understand why only Hardenberger and Wallace, so far, have dared to perform this work; but it must surely have an assured future.

The concert belonged to the BBC's "French Connection" series, with the excuse of two Ravel pieces in the second half. But that proved to be more than just an excuse: Mata had points to make. *La Valse* followed directly upon the *Valses nobles et sentimentales*, with no applause permitted between. Where the *Valses* are generally treated as delicate parlour-inventions – the original piano-writing is bold enough – Mata aimed to show just how closely akin they are to the grander, wilder *La Valse*.

The first of the *VNS* was a full-scale explosion, the seventh an expansively dramatic study in sweeping and swooning. In all the slighter waltzes, Mata reminded us forcefully that though the piano score may be spare, Ravel's orchestral version is sumptuously tricked out. Innumerable details that usually whisper past the ear became vivid and significant. The nightmare of *La Valse* came as a natural culmination (or inevitable disaster) – just as Mata intended, obviously. Fascinating.

David Murray

BBC Symphony Orchestra
Royal Festival Hall, London

New York Theatre/Karen Fricker

Spic-O-Rama

John Leguizamo is a prodigiously talented young performer whose recent one-man play Spic-O-Rama reveals that he is on the way to an excellent writing career. In Spic-O-Rama, which played at New York's Westside Theatre, Leguizamo portrays, in turn, six members of the Gigante family of Jackson Heights, Brooklyn, as they prepare for their eldest son's wedding.

Everything about Spic-O-Rama, from its title to its sardonic pre-show disclaimer that "this Latin family is not representative of all Latin families … if your family is like this one, please seek professional help," to Leguizamo's appropriation of stock types for their comic and tragic value makes clear that he is not going to pander to those who have called his work politically incorrect. The Gigantes are, as their name suggests, larger than life, but what makes this play effective satire is that it springs from Leguizamo's acute and unflinching societal observation.

Spic-O-Rama wants editing – it is too long and becomes heavy-handed – but Leguizamo's performances and unstoppable energy carry the evening.

Roy Arcenas' set places us in an archetypical urban wasteland of dented chrome, graffiti and chain-link fences. In bounds nine-year-old Miggy Gigante, sporting trendily oversized jeans, and tranquiliser-worthy excesses of energy. Miggy begs us to take him away from his family of "monsters, freaks and weirdos": "you don't have to go to a third-world country to adopt me – I'm here!"

Slide shows and musical montages keep the play moving while Leguizamo is offstage changing costumes. He next emerges as teenaged Raffi, a would-be Shakespearian actor, who claims he's the bastard son of Laurence Olivier. Desert Storm veteran Krazy Willy wonders why he's not considered a hero for having shot at "people who look like us except they have towels on their heads".

Leguizamo's characterisations are all remarkable, but materfamilias Gladyz, who minds the family launderette, is his greatest feat. Her bitchy prattling about a life trapped in endless cycles of spin dryers and baby-making is the production's most acidly funny segment.

Two unsubtle portraits blunt Spic-O-Rama's effectiveness. Wheelchair-ridden brother Xavier spouting bile about his screwed-up family is an obvious and heavy-handed symbol, and, having met the rest of the family, it is absolutely no surprise that father Felix, who gives an overlong wedding toast at the play's end, is a sexist lout.

Despite sell-out audiences, Spic-O-Rama played only a limited engagement in New York, largely because Leguizamo's talents are in demand. He is appearing in the film Super Mario Brothers with Bob Hoskins, has filmed both Spic-O-Rama and his previous series of monologues, Mambo Mouth, for Home Box Office cable TV, and is working on his first screenplay.

Opera

Don Pasquale/Turandot

Patrick Mason's version of Donizetti's subtle comedy arrives at the Coliseum with clod-hopping coarseness from Opera North, for whom it was conceived with much of the same cast three years ago. Time has done nothing to mellow it or lend any discrimination to its relentless, elbow-nudging jokiness. Some of the excesses have apparently been trimmed back, but more than enough of the deadly gags remain to ensure that the production remains irredeemably vulgar and unperceptive.

A fair proportion of the audience did laugh heartily at Friday's opening, but to me it seemed as glum an evening at a comic opera as one could have the misfortune to encounter. Early in the preparations for this staging the production team appears to have taken the decision that *Don Pasquale* was so weak dramatically or musically, perhaps even both, that it needs all possible help to come alive on stage. If even this Donizetti agnostic can hear that the opera is both a fount of delightful music and a subtle and affectionate comedy of manners, one can wonder how that basic perception managed to escape Opera North and now ENO, which is proud to announce this as the company's first new Donizetti production for 25 years.

Mason and his designer Joe Vanek set *Don Pasquale* in the Rome of the 1990s; Pasquale himself is a hard-nosed property developer, Ernesto a feckless yuppy, Norina a fashion-follower who runs a pavement kiosk. The updating works smoothly enough, but brings no fresh insight or perspective. Instead there are just added opportunities for feeble jokes, each one painstakingly repeated several times, about gawping American tourists, Italian motor scooters, indolent house painters, bimbos from aerobics classes. The level of humour never rises above the most obvious; most of it wouldn't be out of place in a Christmas pantomime, so that one half expects a song sheet to descend from the flies in the final scene.

Musically, though, it does pass muster. Andrew Greenwood conducts with breezy efficiency, even if understandably in the circumstances he never seeks out the melodic buoyancy of the score. Within the parameters set for him Andrew Shore was again a model of comic timing and style; no depth is required of course, and his patter with Alan Opie's Malatesta was slick and expert. Adrian Martin was a plausible, full-toned Ernesto until his vocal line took him above the stave, when his steadiness began to falter and the sound became constricted. Best of all was Rosemary Joshua's Norina, entering fully into the spirit of the production, catching the double-takes with complete assurance and getting around her coloratura with great aplomb. In what will not go down as one of the vintage seasons at ENO, Ms Joshua's deserved emergence as a principal is a precious highlight.

Andrew Clements

English National Opera at the London Coliseum; performances until April 5. Sponsored by TSB Group plc.

SAFELY RETURNED from Wembley to Covent Garden, Andrei Serban's celebrated production of Puccini's Turandot began a new run of 11 performances on Saturday. By the end, every solo role will have been sung by two or three artists; but on Saturday Turandot was again Dame Gwyneth Jones, steely and indomitable, with Vladimir Popov in lusty voice as her Prince Calaf.

As rehearsed by Vernon Mound, the staging still looks terrific in Sally Jacobs' designs, though memory says that Ping, Pang and Pong's athletic exertions used to be even more strenuous. The new Pong is Ian Thompson, whose true tenor was a touch lightweight for their trios. The opera is now conducted by Mark Ermler, whose broad authority was evident once past Act 1 (where there was some first-night disarray). The Romanian soprano Angela Gheorghiu made a striking debut as Liù, pale and pretty. The voice is free, even and secure, with unexpected strength in her last aria. She has a lovely dignity; one was glad that in this production, her tortures are only symbolic.

David Murray


Rosemary Joshua, Tom Marty and Howard Belgard in Don Pasquale

INTERNATIONAL

ARTS GUIDE

■ BERLIN

OPERA/DANCE

Deutsche Oper Tonight: Béjart's Ring Round the Ring. Tomorrow and Fri: Die Zauberflöte Wed and Sun: Jiri Kout conducts Götz Friedrich's new production of Der Rosenkavalier, with Karan Armstrong and Kurt Rydl. Thurs: Der fliegende Holländer with Ingrid Haubold and Simon Estes. Sat: Aida with Galina Kalinina and Giorgio Lamberti (341 0249)

Staatsoper unter den Linden Tonight: studio production of Hindemith and Martinu one-act operas. Tomorrow: Minkus' ballet Don Quixote. Wed and Sat: Tosca with Tiziana Fabbricini, Sergei Larin and Sherrill Milnes. Thurs: Jenufa with Eva Maria Bundschuh. Fri: Die lustigen Weiber von Windsor. Sun: Meistersinger with Günter von Kannen, Reiner Goldberg and Hans Tschammer (200 4762)

CONCERTS

Philharmonie Tonight: Yuri Simonov conducts Orchestra of the Deutsche Oper in Rimsky-Korsakov's Sheherazade and Prokofiev's Fifth Symphony. Tomorrow: Martha Argerich and Nelson Freire piano duo. Wed: Berlin Baroque Orchestra. Fri and Sat evening, Sun morning and afternoon: Claudio Abbado conducts Berlin Philharmonic Orchestra and Chorus of MDR Leipzig in music inspired by Hölderlin March 6, 8: Georg Solti conducts concert performances of Falstaff, with José van Dam (2548 8232)

Schauspielhaus Tonight: June Anderson song recital. Fri: Heinz Rögner conducts Berlin Radio Orchestra and Chorus in works by Honegger and Sutermeister. Sat evening, Sun morning: Eliahu Inbal conducts Berlin Radio Symphony Orchestra in works by Rakhmaninov and Shostakovich (2090 2156)

THEATRE

● A new production of Anthony Burgess' stage version of Clockwork Orange, directed by Frank Castorf, opens on Thurs at Volksbühne am Rosa Luxemburg Platz. Between Feb 27 and March 5, the Volksbühne is hosting an Achim Freyer festival, including five stage productions and one film by the German director (282 8978)

● Berliner Ensemble has Wessis in Weimar, a new play by controversial dramatist Rolf Hochhuth about west German arrogance towards the former Communist east. Daily except Mon (282 3160)

● Schiller Theater repertory includes Racine's classical tragedy Britannicus, directed by Wolfgang Engel, and Klaus Pohl's study of German xenophobia, Die schöne Fremde (312 6505)

● Maxim Gorki Theater has a new production of Ibsen's Enemy of the People directed by Siegfried Bühr (208 2783)

● Theater des Westens has Cole Porter's musical Anything Goes, daily except Mon (3190 3193)

● Tickets and information for theatre, revues, concerts and nightclub shows available from City Center Theater und Konzertkasse, Kurfürstendamm 16 (tel 882 6563 fax 882 6567) and Theaterkasse im Europa-Center (tel 261 7051 fax 261 9286)

■ GENEVA

● Armin Jordan conducts Orchestre de la Suisse Romande on Wed at Victoria Hall in works by Fauré, Norbert Moret and Brahms (311 2511). Alexander Lazarev conducts Bolshoy Orchestra in works by Rimsky-Korsakov, Scriabin and Shostakovich on Wed in Lausanne and Thurs in Geneva (310 6611)

● Anne Sofie von Otter, accompanied by Bengt Forsberg, gives a song recital on Wed at the Grand Théâtre. The next opera production is Poulenc's Dialogue des Carmelites, opening on March 9 with a cast including Felicity Palmer and Marie McLaughlin (311 2311)

■ MILAN

Teatro alla Scala Maurizio Pollini's piano recital tonight is the only event this week. Arnold Schoenberg Chorus gives a concert next Mon, followed on March 5 by a song recital by Alfredo Kraus. The next opera production is a revival of the Strehler staging of Don Giovanni on March 6, conducted by Riccardo Muti (7200 3744)

■ NEW YORK

OPERA/DANCE

Metropolitan Opera Tonight: revival of La Fanciulla del West with Ghena Dimitrova, Nicola Martinucci and Alain Fondary (also Feb 26, March 2, 6, 9, 12, 15, 19). Tomorrow and Sat afternoon: Cav and Pag with Waltraud Meier and Vladimir Atlantov. Wed and Sat evening: Il trovatore. Thurs: Der Rosenkavalier with Anna Tomowa-Sintow and Susanne Quittmeyer. March 11: first night of new production of Ariadne auf Naxos with Jessye Norman (362 6000)

State Theater Bavarian State Ballet opens a two-week season tomorrow with John Cranko's Onegin. The repertory also includes Minkus' Don Quixote choreographed by Ray Barr and a mixed bill including works by Ashton, Kylian and van Manen (870 5570)

City Center Joffrey Ballet opens a two-week season tomorrow, followed by Merce Cunningham Dance Company on March 9 (581 1212)

CONCERTS

Avery Fisher Hall Tomorrow: Kurt Masur conducts New York Philharmonic Orchestra in Brahms' Violin Concerto (Itzhak Perlman) and Franck's D minor Symphony. Thurs evening, Fri morning: Masur conducts a programme including Saint-Saens' Second Piano Concerto, with Cecile Ousset. Fri evening: Leon Fleisher plays Franz Schmidt's Left Hand Concerto, with American Symphony Orchestra. Sat: Music of Frank Zappa. Sun afternoon: Moscow Virtuosi directed by Vladimir Spivakov (875 5030)

Carnegie Hall Tonight: Leipzig Chamber Orchestra plays works by Haydn, Beethoven and Schubert, with piano soloist Joseph Kalichstein. Thurs: Murray Perahia piano recital. Fri (in Weill Recital Hall): Chilingirian Quartet. Sat: Orpheus Chamber Orchestra with violin soloist Ruggiero Ricci. Sun afternoon: James Levine conducts Metropolitan Opera Orchestra in works by Schubert, Bach, Mozart and Stravinsky, with soprano soloist Kathleen Battle (247 7800)

■ VIENNA

OPERA

Kiri te Kanawa sings the title role in Arabella tomorrow, Sun and next Wed at the Staatsoper, with Wolfgang Schoene as Mandryka. The repertory also includes Giselle tonight and Il barbiere di Siviglia on Fri (51444 2955). The Volksoper repertory includes a new production of Lehar's Giuditta opening on Wed, plus Nabucco, Die Zauberflöte and Don Giovanni (51444 2959). Tonight, Wed and Sat at Kammeroper: Shnitke's opera Life with an Idiot, staged by Boris Prokrovsky (513 6072)

CONCERTS

Tonight at the Musikverein, Marjana Lipovsek gives a song recital. Thurs and Fri: Michael Gielen conducts Austrian Radio Symphony Orchestra in works by Webern, Mahler and Suk. Sat: Anne Sophie Mutter. Sun: Rafael Frühbeck de Burgos conducts Vienna Symphony Orchestra in Mahler's Third Symphony (505 8190). Frühbeck de Burgos also conducts works by Richard Strauss, Falla and Albeniz on Wed and Thurs in the Konzerthaus. Alicia de Larrocha gives a piano recital on Fri, and there is a concert performance on Sat of Dido and Aeneas, conducted by Thomas Hengelbrock (712 1211)

THEATRE

This week's repertory at the Burgtheater includes Peter Turrini's new play Alpenglühen and Shakespeare's Macbeth, both directed by Claus Peymann, and Kleist's Das Käthchen von Heilbronn directed by Hans Neuenfels (51444 2218). Akademietheater has Chekhov's Uncle Vanya and Brecht's atrocity tale Die Rundköpfe und die Spitzköpfe (51444 2959). Theater in der Josefstadt has Ariel Dorfman's Death and the Maiden and Schnitzler's Liebelei (402 5127)

● Telephone sales of tickets for the Staatsoper, Volksoper and Burgtheater are available worldwide for holders of credit cards by ringing Vienna 5131 513

European Cable and Satellite Business TV
(All times are Central European Time)

MONDAY TO THURSDAY
Super Channel: European Business Today 0730; 2230

MONDAY
Super Channel: West of Moscow 1230.
Super Channel: Financial Times Reports 0630

WEDNESDAY
Super Channel: Financial Times Reports 2130

THURSDAY
Sky News: Financial Times Reports 2030; 0130

FRIDAY
Super Channel: European Business Today 0730; 2230
Sky News: Financial Times Reports 0530

SATURDAY
Super Channel: Financial Times Reports 0930
Sky News: West of Moscow 1130; 2230

SUNDAY
Super Channel: West of Moscow 1830
Super Channel: Financial Times Reports 1900
Sky News: West of Moscow 0230; 0530
Sky News: Financial Times Reports 1330; 2030

Dutch rescue keeps Daf on the road

Government intervention is unlikely to cause political controversy, says **Ronald van de Krol**

State ownership of industry in the Netherlands has never been widespread. So this weekend's government rescue of Daf, the troubled Dutch truckmaker that was plunged into receivership three weeks ago, puts the authorities in the novel position of controlling almost half of one of the country's best-known companies.

The government's intervention reflects deep concern over the state of domestic industry. Recently, a string of "crown jewels" ranging from Philips, the electronics group, to Fokker, the aircraft maker, have either fallen on hard times or have had to turn to foreign companies for assistance.

Nationalisation and privatisation have never been a powerful political rallying cry in the Netherlands. So this weekend's decision by the government to invest Fl 195m ($105m) in the "new" Daf – giving it a stake of more than 42 per cent in the successor company's equity – is hardly likely to provoke controversy.

Unlike Britain, where privatisation has had strong ideological overtones, the instrument of state intervention is a highly pragmatic one in the Netherlands, designed to provide a breathing space for a company so that it can put its house back in order.

The Dutch state may be the biggest shareholder in the new, slimmed-down Daf Trucks NV which will be set up this week, but it is a reluctant participant; it does not see itself as a long-term investor.

In drawing up a rescue package for Daf, both the Dutch and the Flemish region of Belgium – where Daf's axle and cab plant in based – were driven by a keen sense of pragmatism: both were keen to safeguard only those jobs in their territories.

The Dutch wanted to preserve 2,750 of the nearly 7,000 jobs at Daf's home base in Eindhoven, and the Belgians wanted to safeguard 750 of the 1,500 jobs in Westerlo. The fate of Daf's UK subsidiary, Leyland Daf, which employed 5,500 people until the present crisis arose, is seen as a matter for the UK government, which has consistently refused to inject capital in the same way as the Dutch and the Belgians.

The links between the Dutch and the UK plants, however, mean that UK receivers have been able to secure potential supply aggreements for the British factories. This will help the UK factories in their attempts to find the market solution to their problems desired by the British government.

The reluctance of Mr Michael Heseltine, the UK trade and industry secretary, to intervene is not just because of the government's attachment to free-market principles; it is also attributable to past support by successive governments (both Labour and Tory) for Leyland when it was part of the wider British Leyland car, bus and truck group. British Leyland still failed to find its feet despite millions of pounds of state aid, Mr Heseltine said.

The government's move is a reflection of deep concern about the state of industry

No such political controversy is likely to be stirred in the Netherlands over the Dutch government's financial support for Daf. On the contrary, public opinion has been skilfully mobilised in support of the company. Last week, the unions and Daf's works council ran a successful campaign under the motto "Keep Daf on the road" to persuade more than 70,000 people and companies to pledge Fl 12.5m towards a special Daf bond. Among the telephone subscribers to the bonds were the Dutch prime minister, Mr Ruud Lubbers, as well as all the members of the PSV football club, which is based in Daf's corporate home town of Eindhoven.

The government's decisive support of Daf does not, however, mean that it has entered into an open-ended commitment. The rescue package the first undertaken by the government so far in the 1990s differs greatly from the interventions of the 1960s and 1970s, when billions of guilders in the form of state aid, grants and subsidies were poured into the shipbuilding and textile industries. These state injections were designed to save jobs at all costs in declining industries. But the aid failed to revive the industries, giving state intervention a bad name during the the mid-to late 1980s.

Under Mr Koos Andriessen, the economic affairs minister since 1989, the Netherlands has moved to a policy of promoting and supporting high-skilled jobs rather than aiming simply to preserve employment in declining sectors. In Mr Andriessen's view, Daf is a company worth saving at least in the Netherlands because of its high-technology base, its links with Dutch research institutes and universities, and its importance to dozens of smaller local suppliers.

Mr Heseltine has the same belief in the UK Daf operations. But he is determined that if they are to be bailed out it will be by the market. Daf is, in effect, retreating to the heavy and medium-truck base which characterised its activities before its takeover of Leyland in 1987. It is for this reason that the new Daf Trucks NV company has indicated that it may be able to accommodate distribution of the Birmingham-made 45 series light van.

The rescue of Daf, however, is a risky venture that could yet cause political embarrassment in the Netherlands if the company goes down a second time, this time with government money. As it is, shareholders who participated in Daf's flotation in 1989 have lost their investment, and subscribers to this weekend's "Save Daf" bond appeal run the risk that their loan to the company may prove worthless if things go wrong again. In which case, Mr Lubbers will have lost both the government's money and his own Fl 1,000 contribution to the Daf appeal.

Shares in Chinese companies are hot property in Hong Kong, says **Simon Holberton**

Mainland moves the market

The appearance on the Hong Kong stock market today of Denway Investments, a holding company for state-owned automotive assets in the southern Chinese province of Guangdong, is the clearest example of the transformation that is taking place in Hong Kong's financial markets.

The stock market – which has been dominated by property companies, financial institutions, trading houses and utilities – is broadening to encompass large manufacturing and industrial companies, many of which are based in China and controlled by official interests on the mainland. The result is that four and a half years before its reversion to Chinese sovereignty, Hong Kong is laying claim to the title of "China's financial centre".

Local and international demand for Chinese assets has grown sharply over the past 12 months. For investment managers the reason is plain. Says Mr Robert Lloyd George, chairman of Lloyd George Management, one of the fastest-growing fund managers in Hong Kong: "There is no more exciting economy in the world than China's. It is the emerging industrial power in Asia and Hong Kong has the market to play it; it is like Tokyo 30 years ago."

The Denway issue set a record for the Hong Kong market in the level of oversubscription for a new issue. Investors found HK$240bn (£21bn) for 330m shares valued at HK$400m, or 657 times the amount on offer. The best a single investor could have done in the allocation was just eight "board lots", the tradable parcel of shares on the colony's bourse, or 16,000 shares in total. For that amount he would have had to bid for 10m shares and put up HK$12.2m.

Popular interest in Denway came as little surprise. New issues – especially those involving mainland companies – have become a one-way bet. They are usually underpriced and successful applicants in the primary issue are able to make considerable sums by immediately selling a stock when it is listed. Denway's current "grey market" price is more than twice its HK$1.22 a share issue price.

But of more significance than the ability to "stag" an issue has been the influence on Hong Kong of economic reform and liberalisation in China. Last year, the country's Gross Domestic Product grew by more than 12 per cent. Economists' forecasts of continued strong growth this year has strengthened international business interest in China. Not even the current difficulties Hong Kong is having with Beijing about its political development have doused investor interest in what are locally known as "China plays" or "red (pace Marx) chip" stocks.

Such stocks will increasingly become available to international investors. In the next 12 months nine large Chinese state enterprises – embracing petrochemicals, brewing, ship building, steel and machine tools – will be brought to the Hong Kong market.

They will differ from Denway, which is a Hong Kong incorporated holding company, and Brilliance China Automotive, a Bermuda registered company, brought to the New York market last September, in that they will be incorporated under Chinese law.

This presents a difficult test for merchant bankers because many Chinese companies comprise much more than businesses; they often include schools, hospitals and housing and are responsible for the provision of welfare for their workers. Consequently, it is difficult to place a value on the companies and estimates of the aggregate amount of capital to be raised for the nine vary widely. Forecasts range from HK$7bn to as much as HK$25bn.

But the long-term significance for the Hong Kong stock market of the flotations exceeds the amount of capital to be raised. The new issues, merchant bankers believe, reflect a decision by the Chinese regulatory authorities to make Hong Kong the main market for raising foreign capital for corporate China.

Underlying merchant bankers' confidence was the barely disguised official anger at the approval given to Brilliance to list in New York. It slipped through a gap in regulation created by the transfer of responsibility for stock exchange matters to the Securities Regulation Commission (SRC) from the People's Bank, China's central bank, late last year. The SRC moved quickly in January to prevent Shanghai Petrochemicals – one of the nine – from seeking a primary listing in New York, as its adviser Merrill Lynch was encouraging it to do. It was told to list in Hong Kong.

The reasoning of Chinese officials in their preference for Hong Kong is is simple and turns on the colony's reversion to Chinese sovereignty on July 1 1997. On that date, China will have a stock market run on western lines and backed up by western regulation and Hong Kong's version of British common law, ensuring property rights. But most important for mainland companies is the Hong Kong dollar's fixed rate against the US dollar. This means that Chinese companies raising funds in Hong Kong will effectively be raising fully convertible, dollar-backed, funds.

Already Hong Kong has become a significant capital market for mainland companies and Hong Kong companies expanding in China. Warburg estimates that of the HK$73.5bn of gross equity (equity before dividends are subtracted) raised in Hong Kong last year, the amount raised for Chinese companies and China-related business ventures was nearly HK$20bn. This year Warburg forecasts that capital raised for China and China-related ventures will be about HK$35bn.

Mr Ewan Cameron Watt, head of Far East research at Warburg Securities, expects that a second wave of Chinese state companies and western-Chinese joint ventures will follow the nine forthcoming listings and will bring structural change to the Hong Kong market. His views are echoed by Mr Andrew Bell, head of corporate finance at South China, a local brokerage, who estimates that up to 50 mainland companies could be lining up to seek a Hong Kong listing once the first nine have been digested.

"If the listing of nine succeeds – and with reputations and careers in China riding on their success, I think they will – then the gates will be open," he says.

Fund managers agree. Mr Lloyd George believes that, by the end of the decade, China-related listings in the Hong Kong market will account for 45 per cent of its capitalisation which he estimates will have grown to US$900bn from US$175bn in 1992.

Foreign investors have been swayed by such predictions. Since last March, more than US$1.5bn has been put into China investment funds. This compares with the US$920m for the combined market capitalisation of both the Shanghai and Shenzhen "B" share market – the only way, other than through Hong Kong, that international investors can own tradeable equity in mainland Chinese companies.

But not all fund managers are convinced of the wisdom of investing in mainland companies listing in Hong Kong. Mr Oscar Wong, who manages GT Management's US$30m China fund, for example, is sceptical about the prospects.

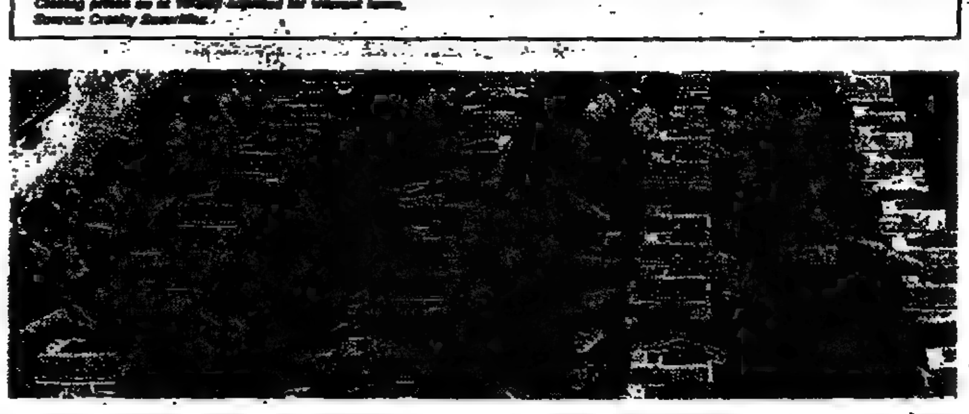
"On average I don't think they are very good companies and they will give foreign investors a bad impression of what is happening in China," he says. "They are not efficiently managed and it will take a long time to reorganise them."

But the Beijing government is determined to succeed in its plans to bring state enterprises to the capital markets of the neighbouring colony. For Hong Kong, success in this strategy will underwrite its own future. As Mr Archie Hart, head of research at Crosby Securities, notes: "If Hong Kong has a future role it is as the financial capital of southern China."

NEW LISTING OF CHINA STOCKS

	Listing date	Issue price (HK$)	No of shares (m)	Capital Raised (HK$m)	Times over-subscribed	Price 16 Feb	performance % change
Hai Hong Holdings	[illegible]	1.5	61.25	91.875	373	2.78	85.3
China Overseas	[illegible]	1.06	820	844.6	99	1.39	35.0
CTS	11/11/92	1	400	400	411	2.631	163.1
Guangzhou Investment	15/12/92	1.05	425	446.25	229	1.535	46.5
Denway Investment	22/2/93	1.22	330	402.6	657	n/a	n/a

Closing prices as at 16/2/93 adjusted for warrant issue. Source: Crosby Securities.



New faces: Hong Kong's stock market encompasses many China-based manufacturing companies

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Right way out of a fiscal hole

From M C Kennedy.

Sir, Fiscal hole or fiscal panic? In your editorial ("Filling the fiscal hole", February 9) you join forces with the OECD and Institute of Fiscal Studies in calling for a tax increase to reduce the public sector borrowing requirement. The reasons you give are, first, that the government's anti-inflationary promise needs a tax increase if it is to be believed, and, second, that a tax increase is required to prevent a spiralling rise in the ratio of national debt to income.

On the first of these arguments you must be right, since almost any fall in demand in the economy is likely to reduce inflation. Inflation, however, is hardly a pressing problem at the moment, whereas mass unemployment and the collapse of companies – which you do not even mention – most certainly are.

On the problem of the spiralling national debt, may I suggest that it should not, and would not, arise if the Treasury knew how to manage its finances. It is absurd, in a recession, that it should be thought necessary to add to the interest-bearing national debt in order to find the funds for public expenditure. There is no reason in principle why the Treasury should not borrow directly, and free of interest payments, from the Bank of England. In practice, the Bank and Treasury have put their own obstacles in the way of such a simple act of credit creation. But this means that it is the authorities' own act of self denial, not the PSBR, which must be held responsible for adding to the interest-bearing debt – and also for the taxes needed to pay the interest. To be blunt, it is Treasury folklore which threatens to raise the tax burden, and taxpayers should object.

Naturally, one would not advocate direct credit creation when the economy is fully stretched – as, for example, in wartime. But in times like the present it is the clearest way out of what you call the "fiscal hole".

M C Kennedy,
faculty of economic and social studies,
University of Manchester

UK's electricity structure not incompatible with efficiency

From Dr Simon Taylor.

Sir, Your editorial on the electricity generating duopoly ("Duopoly power", February 15) asserts that "there is already evidence that the duopoly does not work to customers' advantage". You also say that, were there to be a reference to the Monopolies and Mergers Commission, the MMC could recommend a break up into smaller units. I suggest the industry structure is quite compatible with efficiency.

Although privatisation was not ideally carried out, the UK will soon have some of the world's most efficient coal power stations, together with environmentally friendly gas power. Economic theory moved away some time ago from a simple association between industry structure and efficiency and any argument based purely on the duopoly claim needs to be justified.

There are two theoretical benefits from break up: lower average production costs and more competitive pricing of the output. On the first point, it is scarcely credible that production costs would be lower with five or six companies – on the contrary there are probably some economies of scale. Both generating companies are now heading for a halved workforce with substantial reductions in other operating costs.

On the second point, the regulator has accepted that pool prices remain below avoidable costs. The pool will be a highly imperfect spot market for some time to come, but there is no evidence that the generating companies are exploiting their power, for the simple reason that they would gain very little from it, but would immediately fall foul of the regulator. Both are now careful to avoid any behaviour that could be construed as anti-competitive. This largely removes any danger to the public interest.

Break up would therefore probably raise the overhead cost of electricity and reduce the generation industry's purchasing economies in fuel and transport, for little or no benefit in the pool. It would also rob the UK of the opportunity to take a large position in the emerging foreign generation market, where the two companies should be able to produce substantial profits and export earnings in future.

Over the next five years, the electricity regulator will be able to point to lower prices for most customers, better service and a choice of supply. This is not a bad outcome for an imperfect privatisation.

Simon Taylor,
fellow in economics,
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The servant of parliament

From Mr William Reid.

Sir, Your report, "Watchdog to probe complaints against taxman" (February 19) contains one error which needs to be corrected. You said: "The Revenue received 15,000 complaints last year, of which 100 were referred to the government's ombudsman. Yesterday it said it expected the adjudicator to handle 20 to 50 complaints a month."

I am certainly not the government's ombudsman. I serve parliament and the results of my investigations were rightly described by Mr Francis Maude, when financial secretary to the treasury, as not always comfortable to the government.

The new Revenue adjudicator will, I hope, be able to sort out many complaints between taxpayers and the Revenue, but he is to be appointed by the board of Inland Revenue. While this latest initiative is welcome, it will still be open to dissatisfied taxpayers to ask members of parliament to refer their grievances to the parliamentary ombudsman.

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Salvation Army not so silent

From John Larsson.

Sir, The FT ("Bank probed in Britain and US", February 20) gives a misleading impression in saying that the Salvation Army has 'remained silent' over developments in its attempts to recover $8.8m missing in an alleged fraud.

The Army's intention to be open about the matter was reflected by the fact that it issued a statement on February 16, which was widely reported in the media.

It issued writs against 15 defendants. Extracts from these writs have been widely reported.

The Army now has to balance the public's right to know the facts with the need to recover the missing money. Its lawyers have advised that, to go beyond the statement already made, could jeopardise that recovery.

John Larsson,
commander, UK territory,
The Salvation Army

Closures part of a pattern

From Dr Peter Draper.

Sir, Your editorial on the proposed changes to the NHS in London ("Health care in London", February 17) presents the controversial hospital plans as "rationalisation". This was certainly one feature but severe cuts were also part of the package – 2,500 acute bed closures despite 132,000 Londoners on waiting lists. For similar closures, the King's Fund estimated the annual savings at £200m.

When it is realised that closure of several thousand other acute hospital beds throughout Britain is currently planned, (for instance, 1,000 in Edinburgh and in Glasgow, 500-1,000 in Liverpool), the London proposals are seen as part of a pattern.

That pattern will delight a far-sighted Treasury, inflate waiting lists and further fuel commercial medicine.

It would be most useful if the FT were to publish a national survey of these planned closures and the estimated financial savings.

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FINANCIAL TIMES
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Monday February 22 1993

Financing the deficit

THE BRITISH government will borrow some £38bn (6¼ per cent of gross domestic product) in the current financial year and, argues the Institute of Fiscal Studies, another £54bn in 1993-94. That is just the beginning. Under plausible assumptions, the government will be borrowing £1,000 for every man, woman and child in the country every year for many years to come. But even such a borrower enjoys some choices.

They are not unlimited. Wherever the government borrows and however it borrows, it faces highly positive real rates of interest. The only escape from the trap would be borrowing in conventional long-term gilts, followed by a burst of inflation. This was what happened after the second world war. It must not happen again.

Even so, the government can – and should – try to minimise the real interest rates it faces. Mr Lamont's target for inflation is 1-4 per cent. Judged by the spread between index-linked and 15-year conventional gilts, now 4.8 percentage points, the non-taxpaying investors who purchase most of these securities are not convinced by Mr Lamont. The government should put its money where its mouth is, by borrowing in index-linked gilts. It could also borrow short term at 6 per cent, rather than long at over 8 per cent.

That is not how things have been in 1992-93. The government's borrowings this year include nothing shorter than a year, £5bn in conventional gilts of 1-5 years maturity, £22bn in conventional gilts of over five years maturity, a mere £3¾bn in index-linked gilts and £4bn via National Savings. Government funding also includes some £8½bn in net foreign exchange intervention.

The Bank of England argues that the funding pattern is determined by what investors want. But is it not rather a question of price? Maybe the government regards index-linked gilts as an expensive way to fund, because it does not believe in its own targets for inflation. Similarly, the government may not believe short rates of interest are a bargain for borrowers – house buyers, please note – because it expects them to shoot up once more. As for turning borrowed D-Marks into sterling, this might be rather profitable now, though it was certainly not before September 17.

The government needs also to reconsider from whom it borrows. The full-fund rule, which requires it to sell securities to the non-bank private sector equal to the public sector borrowing requirement, was designed in the mid-1980s to ensure that government borrowing (or repayment) would have no effect on broad money.

That never made sense when the government had ceased to believe broad money was important. It makes even less sense now that the chancellor has a monitoring range for M4 of 4-8 per cent. Since its growth has been well below the bottom of that range, why not monetise some of the PSBR, ask the monetarists? Others hold out the hope of lower yields on gilts, reduced pressure on institutional cash flow and a supply of higher quality assets for battered banks.

The case seems strong, but the government cannot just end the full-fund rule. It has to replace it with another one: an M4 target, for example, or perhaps a longer period over which full-funding would apply. Otherwise, the beneficial effects of underfunding on gilt prices could be more than offset by the effects of higher expected inflation on interest rates.

Expected inflation, not the mechanics of funding, is the fundamental issue. Provided the government is thought to be committed to low inflation, it should be able to finance the PSBR at manageable cost. The danger is the fear that, as debt mounts, so too will the temptation towards another inflationary default. Funding policy can aid credibility. But a government, like any other borrower, can borrow cheaply and effectively only if it demonstrates that its appetite has limits.

This is the fifth in a series of leaders on the March Budget.

After FYROM

THE MOST absurd, but not least dangerous, of Balkan squabbles is within reach of solution. Mr Constantine Mitsotakis, the Greek prime minister, has retreated from the untenable position on recognition of the former Yugoslav republic of Macedonia ("FYROM"), which he imposed on the EC.

At last June's Lisbon summit the EC, fearing that Greece would refuse to ratify the Maastricht treaty, agreed to recognise the republic under any name not including the term "Macedonia". The Greeks argue that this name belongs exclusively to their own northern province, and that its use by anyone else implies the revival of a scheme, current earlier in the century, to create a larger Macedonian state including that province as well as part of Bulgaria. The leaders of the new state repeatedly abjured any such ambition, and amended their constitution so as explicitly to exclude it, but to no avail.

Greek public opinion has become so inflamed that it must have taken courage for Mr Mitsotakis to announce, earlier this month, that he is now willing to accept a UN-sponsored arbitration process, leading to a name which could include the word Macedonia, with a suitable epithet to distinguish it from the Greek province. His retreat reflects awareness that international support for Greece's position, never wholehearted, is crumbling.

Meanwhile, the UN Security Council is considering the republic's application for UN membership. The three EC members currently serving on it – Britain, France and Spain – have come up with an ingenious formula: the Council would admit the republic while noting that its name is still in dispute, recommend that this dispute be settled by arbitration, and decide that it will be referred to as FYROM in the meantime.

Neither side has yet accepted this. The Greeks know that in practice the state would be called Macedonia (as it already is), while Mr Kiro Gligorev, the Macedonian president, fears excoriation by hardline nationalists in his parliament if he agrees to compromise. He should be encouraged to stand up to them: Macedonia has suffered enough from isolation, and the compromise amounts in fact to a moral victory. His government should now concentrate on a domestic problem which is much more serious: the tense relations between its Slav majority and Albanian minority. Greece should take a leaf out of Bulgaria's book and adopt the minuscule landlocked republic as a little sister.

Even if one or both sides refuse to accept the compromise, the Security Council should still adopt it. Balkan governments which do not feel strong enough to face down nationalist passions may yet find it easier to bow to a decree from the world's top authority.

Rocard's move

MR MICHEL ROCARD has long been one of the leading contenders to succeed President François Mitterrand as the standard-bearer of the French Socialist party. At various times he has seemed to have at least an evens chance of defeating the most plausible conservative rivals in that election. So his call last week for the creation of a new broad-based liberal-left political movement, to encompass socialists, ecologists and others, is doubly striking since it comes on the very eve of next month's general elections.

The most immediate explanation, is that the socialist vote appears to be facing a collapse of catastrophic proportions next month. From a peak of more than 35 per cent in the late-1970s and early-1980s, the socialist score looks set to fall to about 20 per cent; whereas the conservatives may take 40 per cent of the vote, with a huge majority in parliament. It is even conceivable that the socialists may be overtaken by the ecologists.

The dilemma for the socialist leaders is that they cannot be sure how much of the likely voting swing is due to temporary factors, and how much is structural. Undoubtedly, there is a large element of popular protest at the corruption in the Socialist party, coupled with indignation at the contaminated blood scandal. No doubt there is also disillusionment that the socialists have offered no remedy for rising unemployment. The unknown question, is how far the fall of the Berlin Wall has stripped the socialist label of political credibility.

But if the projected voting figures should, even in part, represent a structural realignment of political sentiment in France, the socialists might never be able to recover power on their own, and they would obviously have an incentive to seek electoral allies.

Even so, Mr Rocard's move is a high-risk strategy, both in itself and in its timing. The Socialist party leaders and the grass roots federations will not support Mr Rocard's suggestion if they think it means the dissolution of the party. In any case, it is hard to see how such a radical strategy can be implemented in time to affect next month's elections.

Breaking up is hard to do

Imperial Chemical Industries will this week decide whether it should split itself into two companies. **Tony Jackson** and **Paul Abrahams** examine the implications

On Wednesday, the 14 directors of Imperial Chemical Industries assemble for the most important board meeting in the company's 67-year history. The topic on the agenda is simple but momentous: whether the most distinguished survivor of Britain's industrial past should split itself in two.

As they take their seats in the wood-panelled boardroom overlooking the River Thames, the directors can be in little doubt about the outcome. In the seven months since the plan was made public, the world recession has got steadily deeper and the trading outlook grimmer. But however unlucky the timing, ICI has invested too much effort and credit in the venture to pull out.

The idea is that ICI should be carved into two separate companies: Zeneca, which will comprise pharmaceuticals and other high-tech products, and a new ICI, made up of bulk commodity chemicals.

The plan has the formidable backing of ICI's chairman, Sir Denys Henderson, and the equally redoubtable Mr Ronnie Hampel, chief operating officer. It also involves raising about £1bn of new money from the stock market. It is, according to one of the non-executive directors, "99 per cent certain" to go through.

Both the new companies face a rough ride; rougher, indeed, than could have been foreseen when the plan was revealed last July. The European bulk chemical market is in worse shape, according to some industry executives, than at any time since the second world war. The plan envisages floating the new ICI with a much reduced burden of debt. Even so, at least one board member has expressed doubts on whether it would make enough profit in its first year of operation to maintain its share of the dividend.

Zeneca's problem is slightly different. Its industry is largely recession-proof. But like all international drug companies, it depends heavily on the US market. The US patent of its biggest product, the heart drug Tenormin, expired last year. US sales have since halved. Zeneca has no big product to take its place, at least for the next two or three years.

It is central to the demerger plan that Zeneca should raise about £1bn through a rights issue. This raises another problem. The newly-elected Clinton administration has asserted its determination to slash health-care costs. The share prices of US and UK drug companies have tumbled as a result.

Shares in Glaxo, the biggest UK drug company, have fallen by 17 per cent since the turn of the year. Yet Glaxo has just reported a 16 per cent rise in profits. Zeneca's profits for 1992 are widely expected to fall.

Pharmaceuticals aside, the rest of Zeneca's portfolio – consisting of agrochemicals and speciality chemicals – is not in very good shape either. The threat to European Community and US farmers posed by the GATT round and the reduction of farm subsidies is also a threat to the agrochemical industry. In the UK, Germany and France the market fell on average by some 8 per cent last year. This year it may well fall further.

As for the speciality chemicals division, it made a mere £35m of profits in 1991 on sales of £1.2bn. Profits this year are expected to be lower. As a drug company, Zeneca is not among the industry's most attractive. As a hybrid, it is less attractive again.

Given all the drawbacks, ICI's apparent determination to press ahead might seem perverse. The counter-argument is that all these difficulties are essentially temporary. The plan is designed for the longest possible term. Nothing has changed in its underlying logic.

The chief argument for demerger, as expressed by Sir Denys and Mr Hampel last July, is that it allows both parts of the business to concentrate on what they do best. Some

ICI has invested too much effort and credit in the demerger venture to pull out

ICI directors argue that the business as it stands is too complex and far-reaching to be understood by any one person. In practical terms, there is no connection between the breeding of pest-resistant crops at one extreme and the operation of giant petrochemical complexes at the other.

In addition, Zeneca's drug business is by general consent not big enough to stand alone in world terms. Freed from entanglement with the rest of ICI, it could start to plan mergers or joint ventures of a kind which have become commonplace in the world drug industry in recent years.

This is one reason for the planned £1bn rights issue. The other is that Zeneca can then afford to take on most of the debt of the old ICI, leaving new ICI to face the more volatile world of commodity chemicals with a clean balance sheet.

There is another important motive for pressing on. In the months since the plan was announced, the demerger has already gone ahead internally. This has involved considerable upheaval, and is a source of occasional complaint among ICI's middle managers. Indeed, it is suggested by competitors that ICI has sometimes been too preoccupied with internal change to address itself fully to its markets.

Faced with those arguments, the board can scarcely shelve the whole idea. To do so would be to admit that the plan was misconceived at the outset. It would also make it impossible to implement in anything like the same form in future.

On the other hand, as the directors debate the arguments round

The plan has the formidable backing of the company's chairman, Sir Denys Henderson

the boardroom table on Wednesday, they will doubtless reflect that their choice need not be quite so clear cut.

They could postpone the demerger on the grounds of recession. They could press on with the demerger, but postpone the rights issue until the market for drug stocks has recovered. More daringly, City analysts suggest, they could announce a rights issue not for Zeneca but for ICI in its present form. They could then demerge at leisure.

The last option is not as fanciful as it sounds. It would certainly involve a public change of tack: in its statement of July 1, ICI specified that any rights issue would be held by Zeneca, or ICI Bio as it was then known.

But the attraction lies in the fact that while drug stocks are out of fashion on the stock market, shares in supposedly cyclical companies such as ICI are decidedly in vogue. Hence the curious fact that at Friday's closing price of £11.18 per share, ICI's shares stand at a multiple of some 22 times last year's earnings.

In today's market, Zeneca could only expect an earnings multiple of little more than half that. And the higher the multiple, the more cash can be raised for a given number of shares. The original logic, that money raised through the drug side could be obtained more cheaply, has thus been stood on its head.

It is also becoming apparent that something more novel than an old-fashioned rights issue is on the cards. ICI has made plain to its advisers that the London institutions must be offered first refusal of the new shares in the traditional way, if only because of their support against the predatory manoeuvres of Lord Hanson a couple of years ago.

It is also adamant that the issue must be conventionally underwritten in London, so that receipt of the £1bn is guaranteed in advance. But it also wants to tap the resources of new shareholders, particularly in the US.

How these conflicting goals are to be reconciled is not yet clear. But to an extent, these minutiae can be left to Warburg and ICI's other financial advisers. The central decision to be weighed by the directors is of quite a different order: whether to call a halt to ICI's remarkable history and culture, and start afresh.

They might perhaps take courage from a historical analogy. The formation of ICI in 1926 was Britain's response to the merger of the German chemical industry into one gigantic conglomerate, IG Farben. At the end of the second world war, IG Farben was broken up by the victorious allies into its original constituents: Hoechst, Bayer and BASF.

All three went on to become world-class chemical companies, at least as big as ICI itself. If ICI could perform the same trick by splitting itself in two, it would be a satisfying act of historical revenge.

Samuel Brittan

The UK's half-exposed economy

How open is the British economy to international competition? What proportion of British production has to keep abreast of foreign competition; and what proportion is more insulated?

These are extremely important questions in relation to the value of an anchor such as the exchange rate mechanism in lowering and then stabilising inflation. They are equally important outside the European exchange rate mechanism, if we are to gauge the ultimate inflationary potential of sterling's 16 per cent effective devaluation since Black Wednesday last September and the impact of future exchange rate changes.

It is scarcely credible that during more than a decade of ferocious debate about the pros and cons of ERM membership, hardly anyone on either side bothered to make any estimates of how open the British economy really is – which would have been far more valuable than the actual debates.

To make such estimates, it is not enough to look at exports or imports as a proportion of gross domestic product. For just as important are the products which are made at home but for which imports could easily be substituted. An article by Chris Mellis in the February Bank of England Bulletin* takes the bull by the horns – or nearly so. Nearly so, because the author has for statistical convenience used the weights in the Retail Prices Index as a basis, even though they are based on consumption rather than production.

The author starts out by dividing the RPI into goods and services (omitting, of course, mortgage interest payments), as goods are more exposed to trade than services. For one measure of "tradables" he excludes seasonal foodstuffs and taxes on drink and tobacco. For another measure he excludes all food, drink and tobacco. The two variants make quite a lot of difference. In the first case, the proportion of tradables is 67 per cent; in the second, it is only 40 per cent.

The truth must lie somewhere between the two. Food and drink are obviously subject to international competition, but perhaps less so than other goods after taking into account the very large element of transport and distribution services in their retail price. As a rough approximation, one might say that the openness of the British

UK inflation rate	Tradables	Non-tradables	Total
1975-83	12.5	15.6	13.4
1984-92	4.5	6.1	5.0

Source: Bank of England

economy is a little over 50 per cent.

The first finding to emerge from the Bank of England analysis is that the tradable sections of the RPI increased less rapidly than the rest of the index – in fact, about 2 percentage points less since 1983. This is hardly surprising in view of the lower rate of productivity improvement in the services which make up the bulk of non-tradables.

The differences are in the same direction in other European countries although they seem a little smaller. Even Germany was not able to secure an annual rate of price increase for tradables averaging less than 2 per cent in the best period of the 1980s.

Of course, few sectors of a relatively open economy can be insulated for ever from international influence. If wages are held down in the tradable sector, labour will tend to move to the more sheltered areas, thus holding down labour costs and thus prices there, too. It is reassuring, therefore that sophisticated statistical tests showed some transmission of inflation rates from the traded sector to the rest of the economy. If the UK could achieve something similar to German performance consistently and not just in recession years, the overall rate of inflation would fluctuate at about a rate of 3 per cent or 4 per cent.

Not surprisingly, the gap between UK tradable and non-tradable price increases has been at its largest in years when the real exchange rate has been at a peak, thus limiting the ability of producers in the open sector to pass on cost increases.

In 1992, the UK divergence was about 3 percentage to 4 percentage points. The downward pressures were specially noticeable in clothing, footware, leisure and household goods. The Bank author believes these exceptional developments may have been connected with membership of the ERM, as this could have influenced expectations in the tradable sector. It is also possible, however, that tradables simply reacted more strongly to recessionary forces.

In any case, I do not see how anyone looking at the charts and tables in the Bulletin can regard the exchange rate as just a price like that of tomatoes instead of the main link between inflation rates in Britain and those overseas.

**Tradable and non-tradable prices in the UK and the European Community*

OBSERVER

Calling in Bechtel man

■ Life at the top of the construction industry is just as insecure as at the bottom judging from the abrupt departure of ex-French Kier chief Richard Allen as boss of one of the world's biggest civil engineering projects – building Hong Kong's £16bn airport.

It is not the first time that 50-year-old Allen has been out of work. He parted company with Beazer in 1989, two years after it had taken over French Kier. However, his departure this time was as swift as it was unexpected.

No one doubted his commitment to the airport. In two years he had built up Hong Kong's Provisional Airport Authority from nothing to an organisation employing 200 people. He was a single minded and determined manager, but one who had more than a touch of the "one man band" syndrome for his board's liking.

A sign that all was not well came when more than 20 of the world's leading consulting engineers refused to tender for certain aspects of the new airport's design. In the words of their association they said they found the risks they would have to accept if successful to be "onerous" and the work "so ill-defined and uncertain that it was impossible for the jobs to be priced with any degree of realism.

It's up to Allen's replacement, Hank Townsend, a 60-year-old Bechtel man, to make the PAA more user-friendly. He says his door is open to anyone and his management style will be "team based". As for Allen, he left his job as he had occupied it: tight-lipped and declining all comment to the media.

Safety first

■ Britain's driving test should be expanded to include a written exam, two hours of motorway driving and two hours of night-time driving. The suggestions in the annual report of soon-to-be-floated BSM, owner of Britain's biggest driving school, might sound a mite more convincing if the company making them didn't stand to gain so much.

Port in a storm

■ Presumably, the British Government was too occupied with explaining away last week's terrible unemployment figures to notice that one of its oldest lame ducks – the Mersey Docks and Harbour Company – has made a startling recovery and is beginning to behave like a glamour stock.

Its profits and dividend rose by a quarter last year and cargo volumes were up by 12 per cent. With results like these, it's hard to imagine there's a recession on and even harder to imagine that this company spent almost two

'My life's keeping pace with inflation

decades in the Government's intensive care unit. Today, its shares are selling on 18 times fully taxed earnings and are trading at a premium to the market. It is even talking of buying a rival port on the East coast.

Lady in waiting

■ Understandably the Venezuelans are more interested than most foreigners in the plan to rescue Britain's coal industry. After all one idea is to curb imports of Venezuela's cheap but dirty orimulsion for use in Britain's power stations.

But someone ought to have a quiet word with Senor Ignacio Arcaya, Venezuela's new man in London. His plan to invite the powerful commons trade and industry select committee for a cosy little lunch at the crusty old Garrick Club next month, could cause a diplomatic incident. The invitation to the boys-only Garrick coincides with the appointment of the committee's first female member – Ann Coffey, the new Labour MP for Stockport.

Without tears

■ Kingfisher and Darty, who last week agreed terms of their marriage, still have a lot to work out between them. But Darty's finance director Gérard Basini is clear about one thing. If Darty applies UK accounting principles to its figures its profits look higher than under French rules. So while Darty's numbers will be prepared on a UK basis for Kingfisher's benefit, he says, "we will use French rules for the taxman".

Undercover Delors

■ England must feel increasingly like enemy territory to the president of the European Commission. On a brief visit to Oxford on Saturday Jacques Delors had to be smuggled in and out of the university to avoid demonstrators from the "Campaign for an Independent Britain".

Admittedly there were only a dozen agitators, but that was a dozen more than there were EC star-spangled blue banner wavers. The purpose of Delors's secret mission was to attend a small seminar on "relations between science, ethics and society" – one of a series of EC-inspired powwows in ancient university towns. Others have included "law and democracy" in Poznan and "the EC and the South" in Salamanca. Delors likes to look in on these seminars, and plans to round them off with a grand conference early next year.

Over – monitored

■ Meanwhile, some good news on the EC job-creation front. The Commission has decided to monitor the EC Monitor programme which monitors EC research expenditures. In other words the community's research boffins are being asked to monitor how well Monitor is monitoring them. It's a true community-wide initiative. The questionnaire comes from Brussels, replies go to Spain, and the Danish ministry of industry is providing the chairman of the review panel.

Tonto tune

■ Definition of an intellectual: someone who can listen to Rossini's "William Tell" overture without thinking of the Lone Ranger.

FINANCIAL TIMES
Monday February 22 1993

Ukraine starts state sell-offs

Chrystia Freeland meets a new breed of entrepreneurs at auction

IRYNA IASMYSKA is one of Ukraine's new entrepreneurs. Iryna, 30, now owns the general store she used to run, along with six of her co-workers. They bought it at the weekend in the first of Ukraine's privatisation auctions.

In all, 17 small restaurants, shops and businesses were sold at the auction in the western Ukrainian city of Lvov. The sale could presage rapid privatisation of the rest of the economy, 94 per cent of which is still owned by the state.

Another buyer is Oleh Horbatiuk, a bulky, 42-year-old businessman. He bought a grocery shop for 28m coupons, and a textiles factory for 20m coupons. Mr Horbatiuk once served time in a Siberian jail for illegally trading in hard currency.

"I came out of jail and I became a capitalist," Mr Horbatiuk cheerfully explained.

He plans to sell the "best sausages in the world" from his meat processing plant and build his clothing exports business.

Nine of the 17 enterprises sold in Lvov went to workers who used their 30 per cent discount off the bid price and the right to make a 30 per cent downpayment and pay the rest over the next year.

Opening the auction, Mr Volodymyr Pylypchuk, chairman of the Ukrainian parliamentary commission on economic reform, announced: "With the bang of this hammer, I declare the beginning of mass privatisation in Ukraine."

Iryna and her colleagues bid 48m coupons (the equivalent of about $18,750 for the store, although they will get their 30 per cent discount. They had hoped to buy the store more cheaply, but bidding was fierce enough to raise 784m coupons in all, more than 100 times the book value of the businesses on sale.

"Because of an auction, we had to pay 48m coupons (up from a book value of 150,000 coupons)," said Iryna. "Until we pay off this debt, I think I will earn less as an owner than I did as a state manager."

But Iryna, who won a bottle of champagne as the first successful bidder, believes the store is a going concern. "I have a very big task before me, but I know I will succeed. There is such a great shortage of everything in our country that I am confident we will be able to sell everything that we offer our customers."

Lvov municipal officials said they hoped this weekend's auction would become a twice-monthly or even weekly event in their city, which has 4,000 businesses available for privatisation.

The sale, run with the help of the International Finance Corporation, the privatisation arm of the World Bank,is the strongest indicator yet that the government of prime minister Leonid Kuchma is committed to market reform.

Miss Roberta Feldman, IFC task manager for the Lvov project, said: "Now that the auction has happened, Mr Kuchma has asked us to do a series of seminars on privatisation for all the local governments in Ukraine."

Mr Vadym Vasyliev, deputy head of the State Property Fund, responsible for privatisation, said he hoped for similar auctions in all of Ukraine's regional centres by the end of March.

Several large-scale projects are in the pipeline, including the transformation of an association of 10 meat processing plants in Odessa into an open joint stock company under the IFC's auspices, and the privatisation of state river shipping company, Ukrichflot, with advice from the European Bank for Reconstruction and Development.

But there are still obstacles: many businesses are being run under lease between workers and the government. Kiev is trying to break leasing agreements, but workers leasing companies are resisting full privatisation.

There is also opposition from government bureaucrats, who fear erosion of their power, and many workers' collectives are worried about losing jobs under privatisation.

Under the hammer: Olga Svetlitskaya, flanked by her two partners, bids 90m coupons for a jeweller's workshop at an auction in Lvov on Saturday as Ukraine's first small-scale privatisation is launched

THE LEX COLUMN

ICI's splitting headache

Having christened its pharmaceuticals side and reformed its management structure, ICI is just one small step from the giant leap of demerger. The performance of its shares since the scheme was hatched last summer suggests some scepticism of the practical benefits of separation. Even allowing ICI the benefit of the doubt on that score, there is a danger its enthusiasm will cloud its judgment on timing.

In the absence of a remarkable turnaround in the final quarter, ICI can scarcely afford to pay a maintained dividend for 1992. Cutting the £400m pay-out would be easier to present as part of a demerger package. But distributing a reduced dividend between the two sides of the business will not be easy. Chemicals barely nosed into profit in the third quarter. A cyclical chemicals business might be forgiven for paying an uncovered dividend at this stage in the cycle, but over-capacity and a looming European recession make it far from clear when this side of the business will be in a position to pay its way. One way of assuaging such fears would be for ICI to endow the chemicals balance sheet with cash, or ask the pharmaceuticals side to bear a greater share of the dividend. That can only be at the expense of Zeneca's rating.

The plan to raise £1bn cash for the group as a whole on a fancy drugs-company multiple already looks dated. Glaxo now stands on a yield and price-earnings multiple close to the market average. Since Zeneca is suffering from the patent expiry of its biggest-selling drug – and has a less promising research pipeline – it might be expected to trade somewhat lower. By pricing its rights at a heavy discount, Zeneca could doubtless attract underwriters to the issue. But the arithmetic suggests that a cash call from a unified ICI would make more sense. By delaying demerger until the prospects for both sides of its business are clear, ICI would leave itself open to accusations of dithering. But fear of being seen as indecisive is never a good reason for action.

Advertising

The brace of rights issues sprung upon the market by two advertising agencies last week may have convinced investors that life is returning to that most unfashionable of sectors. A glance at the agencies' share prices only reinforces the conclusion. Abbott Mead Vickers has had a strong run in recent weeks. Even WPP's and Saatchi & Saatchi's shares, which have long lingered in the world of the living dead, have shown signs of resurrection. They have outperformed the market by 39 per cent and 27 per cent respectively over the past three months.

However, the sector's revival is based more on hope than expectation. In theory advertising should be one of the first beneficiaries of an economic upturn. So far at least, its practitioners have seen scant signs of it.

On closer inspection, last week's rights issues confirm this more cautious view. Both companies want the money to position themselves for recovery rather than meet specific expansion needs. Gold Greenlees Trott's £15m cash call was designed to fund as yet unspecified acquisitions. Lopex's £3.5m rights issue is being used to bolster its depleted balance sheet. This should eventually help it chase new business, with clients as much concerned with an agency's financial stability as its creative credentials. Advertising's operational gearing will show through in time. Investors, though, are being somewhat premature.

UK coal

Leaks and threats of legislation are doubtless the stock in trade of Whitehall negotiations. Still, a large gap clearly remains between the amount of coal the electricity generators want to take and what the government is trying to unload. The basic deal, which gives British Coal a contract for 40m tonnes this year, has been agreed: it will give a significant boost to the generators' earnings. National Power and PowerGen are willing to burn an additional 8m tonnes of subsidised coal a year by not running stocks down rapidly and by displacing imported coal. That total might be increased somewhat but it is still well short of the 13m tonnes which Mr Heseltine thinks he needs to head off a government defeat. The difficulty arises because the government is unwilling to curb gas or nuclear output, or to sever its electrical French connection. At the same time the generators are reluctant to stockpile coal which might be in their yards for 10 years, even if the government were to cover the carrying cost.

By running the generators shares up to all-time highs the market is betting that a deal will be stitched up behind the scenes. Yet if the government cannot ease a little extra room for coal in the electricity market it faces a choice between trying to sell parliament a smaller coal industry and an increasingly public squabble with National Power and PowerGen. As the government still wants to sell its 40 per cent stakes in both companies, it has an obvious incentive to find an acceptable solution before the market's insouciance fades.

Nordic insurance

The eternal triangle of Nordic insurers – Hafnia, Skandia and Uni Storebrand – may become something of a magnet for overseas capital. Bidding for Denmark's Hafnia closed on Friday, with the likes of AGF of France and Denmark's Codan, controlled by Sun Alliance, still in the hunt. Uni Storebrand's administrators must soon come forward with a plan to recapitalise that business. Most of the funding is likely to come from Norwegian institutions. But any auction of its 28 per cent stake in Skandia should attract an international crowd.

Skandia itself has so far been happy to shrink its business in line with its capital base. So its solvency ratio remains adequate despite the 20 per cent decline in net asset value announced last week. If Swedish property values continue to fall, though, fresh capital may be required. With more than 40 per cent of its shares in the hands of Hafnia and Uni Storebrand, a rights issue looks difficult. An overseas partnership which might take over these stakes must be an attractive option.

But a flow of foreign capital to the region could slow the return to profitability by raising capacity too quickly. Nordic insurers are no different from any others in that the most reliable source of capital is retained profits.

French Socialists back idea of left alliance

By Alice Rawsthorn in Paris

AN overwhelming majority of French Socialists and ecologists support the proposals of Mr Michel Rocard, former French prime minister and a future presidential candidate, for a "political big bang" to create a new centre-left alliance after next month's elections, according to the latest opinion poll.

The BVA poll, published in yesterday's Journal du Dimanche newspaper, suggests that 73 per cent of Socialist sympathisers and 62 per cent of ecologists back Mr Rocard's idea of abandoning the Socialist party in favour of a coalition of socialists, environmentalists and human rights activists. It also indicates a high level of support among the public, with 45 per cent approving of his plan and 40 per cent against.

Mr Rocard's plea for a "big bang" has caused turmoil among the Socialists, who, after a decade in power, are heading for humiliating defeat by the conservatives in next month's parliamentary elections, and may be robbed of second place by the ecologists.

President François Mitterrand has tried to brush aside the Rocard proposals by stressing that the left's first priority should be to strengthen the existing Socialist party. But the president's own standing is under attack. More than half of French viewers (54 per cent) were unimpressed by his television appearances last week, when he answered questions from the public on two successive nights, according to an IFOP poll in yesterday's Journal du Dimanche.

Similarly, his approval rating in yesterday's poll stood at a dispiriting 26 per cent, the same as last month, while that of Mr Pierre Bérégovoy, prime minister, slipped to 31 per cent from 32 per cent in January.

Editorial Comment, Page 12

Opel chief warns of five-year gap before output is restored

By Christopher Parkes in Seville

GERMAN carmakers face at least five bleak, uncertain years, according to Mr David Herman, new chairman of Adam Opel, the General Motors subsidiary.

Consumer confidence was in free fall, he said at the weekend. Business confidence was near postwar lows, with the recent plunge in morale the steepest in almost 50 years. It would be more than five years before Opel's output returned to the levels of the recent past.

Mr Herman's grim forecasts followed news that German car production tumbled 27 per cent in January, while output of commercial vehicles was 57 per cent lower than a year earlier.

Meanwhile, Volkswagen, the country's leading volume carmaker, confirmed that it was considering extending short-time working into the second quarter of this year.

Opel, ranked second behind VW, has drastically downgraded its expectations. A fresh analysis of the company's medium-term business plans had resulted in forecasts for annual output being cut by an average 7 or 8 per cent, Mr Herman said.

The current recession was unusual; a "normal" slump lasted one or two years and was followed by a reasonably sharp upturn. This time he could see no possibility of such a recovery. Apart from recession the industry had to make allowances for the effects of Bonn's plans to increase oil taxes and levy tolls on motorway users.

"Even now drivers pay twice as much on vehicle and fuel taxes as is paid out for road construction and maintenance," he claimed.

Motor manufacturing was Germany's single most important industry; it was time to consider the effects of higher levies on investment and employment.

Mr Herman, speaking at the launch in Seville, Spain, of the company's new Corsa compact car (sold as the Nova in Britain), said production of the new model would rise from 90,000 this year to 100,000 in 1994. Annual capacity would be increased to 400,000, split between the group's plants at Saragossa, Spain, and its new low-cost showpiece works at Eisenach, eastern Germany.

Compact cars account for 30 per cent of the German market, where General Motors companies sold 658,000 vehicles last year – 8 per cent fewer than in 1991.

Some 40 per cent of all GM's European sales are made in Germany. The decline in January output, reported by the VDA industry association, followed the introduction of short-time working in most domestic vehicle plants. Output is being reduced to cope with falls in domestic demand expected to range between 15 and 20 per cent this year.

Car exports dropped by an adjusted 12 per cent and truck shipments abroad fell by half, the VDA said.

New car registrations in west Germany were down 23 per cent during the month. But the figure was distorted by exceptional demand towards the end of last year, when buyers rushed to avoid the January 1 increase in value added tax.

UK defends stance on Leyland Daf

Continued from Page 1

the UK plants secured by the receivers with the new company. The receivers said yesterday that they had secured the intellectual property rights necessary for the independent British operations and had potential supply agreements with the new company.

The new venture had also given an undertaking to look at ways for Leyland's 45 series light van to be distributed within its continental dealership network.

The company's Dutch receivers reached agreement at the weekend with the Dutch and Belgian governments, banks and institutional investors on raising Fl 467m (£178m) in fresh equity for a new-style DAF.

The new company, to be called Daf Trucks NV, will concentrate on the market for medium to heavy trucks, and its industrial operations will be divided between the Netherlands and Belgium. The new company will employ 3,500 people, about half of the original total in these two countries.

The Dutch government is to put up Fl 195m in risk-bearing capital, while the regional government of Flanders in Belgium is contributing Fl 75m. Together, the two governments will own about 57 per cent of the new company, which is to be established later this week. Of the rest of the capital, Fl 110m will be provided by banks and insurance companies, Fl 50m by institutional investors and Fl 37m by Daf's suppliers, dealers and importers.

On top of this risk-bearing capital, bank loans of Fl 400m will be made available by Dutch banks ABN Amro, Rabobank, ING Bank and the National Investment Bank as well as by the Dutch subsidiary of Credit Lyonnais.

The original nine-bank consortium - including Barclays, Lloyds and National Westminster - is understood to have been paid Fl 340m for the assets of the old company in the form of cash, some debt for equity and some continuing loans. The consortium had had a syndicated loan of £800m to the collapsed company.

The new-style Daf is expected to have turnover of more than Fl 2bn compared with Fl 4.94bn in 1991. It plans to produce 10,000 trucks in 1993, well down on 1991 when it made 26,000 trucks and 22,000 vans.

World Weather

		°C	°F
Ajaccio	C	11	52
Algiers	S	15	59
Amsterdam	C	5	41
Athens	C	9	48
Bahrain	C	22	72
Bangkok	F	34	93
Barcelona	S	12	54
Beijing	S	3	37
Beirut	S	16	61
Belfast	C	4	39
Belgrade	F	4	39
Berlin	Dr	4	39
Biarritz	Dr	6	43
Bombay	[illegible]	[illegible]	[illegible]
Bordeaux	[illegible]	[illegible]	[illegible]
Boulogne	[illegible]	[illegible]	[illegible]
Brussels	[illegible]	[illegible]	[illegible]
Budapest	[illegible]	[illegible]	[illegible]
Buenos Aires	[illegible]	[illegible]	[illegible]
Cairo	[illegible]	[illegible]	[illegible]
Cape Town	[illegible]	[illegible]	[illegible]
Caracas	[illegible]	[illegible]	[illegible]
Chicago†	[illegible]	[illegible]	[illegible]
Cologne	[illegible]	[illegible]	[illegible]
Copenhagen	[illegible]	[illegible]	[illegible]
Corfu	[illegible]	[illegible]	[illegible]
Dallas†	[illegible]	[illegible]	[illegible]
Dublin	[illegible]	[illegible]	[illegible]
Dubrovnik	[illegible]	[illegible]	[illegible]
Edinburgh	[illegible]	[illegible]	[illegible]
Faro	[illegible]	[illegible]	[illegible]
Florence	[illegible]	[illegible]	[illegible]
Frankfurt	[illegible]	[illegible]	[illegible]
Geneva	[illegible]	[illegible]	[illegible]
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Glasgow	[illegible]	[illegible]	[illegible]
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Hong Kong	[illegible]	[illegible]	[illegible]
Innsbruck	[illegible]	[illegible]	[illegible]
Inverness	[illegible]	[illegible]	[illegible]
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Istanbul	[illegible]	[illegible]	[illegible]
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Johannesburg	[illegible]	[illegible]	[illegible]
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London	[illegible]	[illegible]	[illegible]
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Madrid	[illegible]	[illegible]	[illegible]
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New York	[illegible]	[illegible]	[illegible]
Nice	[illegible]	[illegible]	[illegible]
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Oporto	[illegible]	[illegible]	[illegible]
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Prague	[illegible]	[illegible]	[illegible]
Reykjavik	[illegible]	[illegible]	[illegible]
Rhodes	[illegible]	[illegible]	[illegible]
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Strasbourg	[illegible]	[illegible]	[illegible]
Sydney	[illegible]	[illegible]	[illegible]
Taipei	[illegible]	[illegible]	[illegible]
Tangier	[illegible]	[illegible]	[illegible]
Tel Aviv	[illegible]	[illegible]	[illegible]
Tenerife	[illegible]	[illegible]	[illegible]
Tokyo	[illegible]	[illegible]	[illegible]
Toronto†	[illegible]	[illegible]	[illegible]
Tunis	[illegible]	[illegible]	[illegible]
Valencia	[illegible]	[illegible]	[illegible]
Venice	[illegible]	[illegible]	[illegible]
Vienna	[illegible]	[illegible]	[illegible]
Warsaw	[illegible]	[illegible]	[illegible]
Washington†	[illegible]	[illegible]	[illegible]
Zurich	[illegible]	[illegible]	[illegible]

Temperatures at midday yesterday
† Noon GMT temperatures
C – Cloudy Dr – Drizzle
F – Fair Fg – Fog H – Hail
R – Rain S – Sunny
Sl – Sleet Sn – Snow
T – Thunder

FINANCIAL TIMES
COMPANIES & MARKETS

 Monday February 22 1993

INSIDE

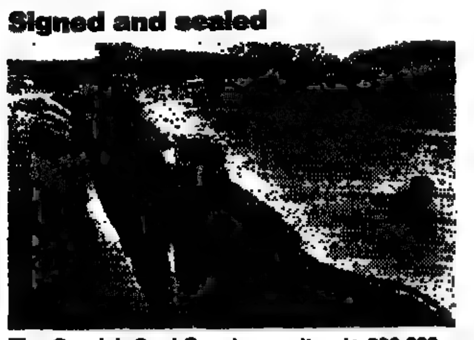
RWE slips ahead of rights issue

RWE, one of Germany's largest industrial groups, saw net profits slip fractionally during the six months to December, to DM395m ($241m) from DM398m a year earlier. RWE is planning to hold its long-awaited rights issue next month. The group said that in spite of the downturn in the German economy, it was confident that in the year to the end of June it would be able at least to hold sales and profits at the same level as in 1991-1992. Page 17

Nursing homes flotation

The flotation of Westminster Health Care, the nursing homes group, is expected to value the group at £100m ($142m) or more. WHC's interim profits before interest and tax more than doubled to £4.3m. The prospectus for the float will contain a profit forecast for the year to May 31. In the previous year it made £5.3m before interest and tax, on sales of £23.4m. Page 16

Signed and sealed



The Cornish Seal Sanctuary attracts 200,000 visitors a year, who spend almost £1m ($1.42m) between them. Last week, Vardon, the leisure group, paid £1.8m to acquire the sanctuary. The deal highlights the increasing interest being shown by leisure companies in conservation. Page 16

Elkem omits dividend

Elkem, the troubled Norwegian light metals producer, yesterday revealed sharply increased net losses in 1992, and warned it would omit its dividend payment for the third year running. Page 17

Prospective p/e ratio

The latest prospective p/e ratio for the "500" index for calendar 1993 is 14.2 (Last week: 14.3). This compares with an estimated p/e for the "500" of 17.3 (17.4) for calendar 1992, calculated by IBES, based in New York. The official FT calculation of the historic p/e, based on the latest reported earnings, is 17.68 (17.68).

Market Statistics

Companies in this issue

Banks given assurance by Daily Mirror

By Robert Peston, Banking Editor

THE FOUR banks which are majority shareholders in Mirror Group Newspapers received an assurance on Friday afternoon from Mr David Montgomery, MGN's chief executive, that the Daily Mirror will remain a left-of-centre newspaper.

"As a result of conversations which took place last week, I have no doubt that the Daily Mirror's left-of-centre position will continue," said Mr John Melbourn, a senior executive director of National Westminster Bank. Mr Melbourn added that "left-of-centre" is synonymous with backing the Labour Party in general elections. The banks believe a rightward shift would damage MGN as a business.

Separately it also emerged yesterday that MGN's board is likely to issue a statement this week, reaffirming both the left-of-centre stance of the Daily Mirror and stating the board's support for Mr Montgomery's management.

NatWest is MGN's biggest shareholder and Mr Melbourn has been playing a leading role in attempts by the bank to restore stability to MGN, after its employees and the Labour Party accused Mr Montgomery of attempting to break the Mirror's traditional Labour allegiance.

Representatives of National Westminster, Midland, Goldman Sachs and Lloyds, which between them control 54 per cent of MGN's shares as collateral on loans to the late Mr Robert Maxwell, saw Mr Montgomery on Friday for a briefing on the performance of the businesses. A banker at the meeting said: "After all last week's speculation, we asked him for an assurance that the newspaper would stay left of centre." Mr Montgomery gave that assurance.

Earlier in the week, Mr Melbourn sought and received a similar commitment on the Mirror's political stance from Sir Robert Clarke, MGN's chairman. He also asked Sir Robert to stay on as chairman for another year, but suggested that the board should be slightly reconstituted so that non-executives make up 60 per cent of all directors. One or two other non-executives are therefore likely to be appointed.

A banks' representative also had a meeting last week with Lord Hollick, the Labour businessman who is a non-executive director of MGN. The banker asked Lord Hollick whether he had a hidden agenda as a director of MGN, following reports that he plans to make a bid for MGN. Lord Hollick told the banks that he had no hidden agenda and that no bid was planned.

CSFB pre-tax profits rise to $277m

By Patrick Harverson in New York

CS FIRST Boston, the New York-based global investment bank, has announced pre-tax profits of $277m for last year, up from $266m in 1991. An unusually heavy tax burden, however, meant net profits for the year were $175m, well below the $215m earned after taxes in 1991.

The largest contribution to earnings came from fixed-income sales and trading, where the lowest US interest rates in 30 years and buoyant domestic government and corporate bond markets created favourable conditions for all the main investment banking houses.

CSFB said debt and equity underwriting revenues were also strong – a reflection of the record-breaking amounts of new corporate stock and bonds sold in the US markets during 1992 as companies took advantage of low interest rates and heavy demand for equity from investors.

The bank's worldwide privatisation and mergers and acquisitions businesses also thrived last year. CSFB topped the rankings in 1992 as the busiest adviser among international investment banks.

Yet, in spite of low interest rates, booming US stock and bond markets, and extraordinary levels of new debt and equity issuance, earnings growth at CSFB in 1992 was well below that of other big US-based investment banks and securities houses, most of which reported record profits last year.

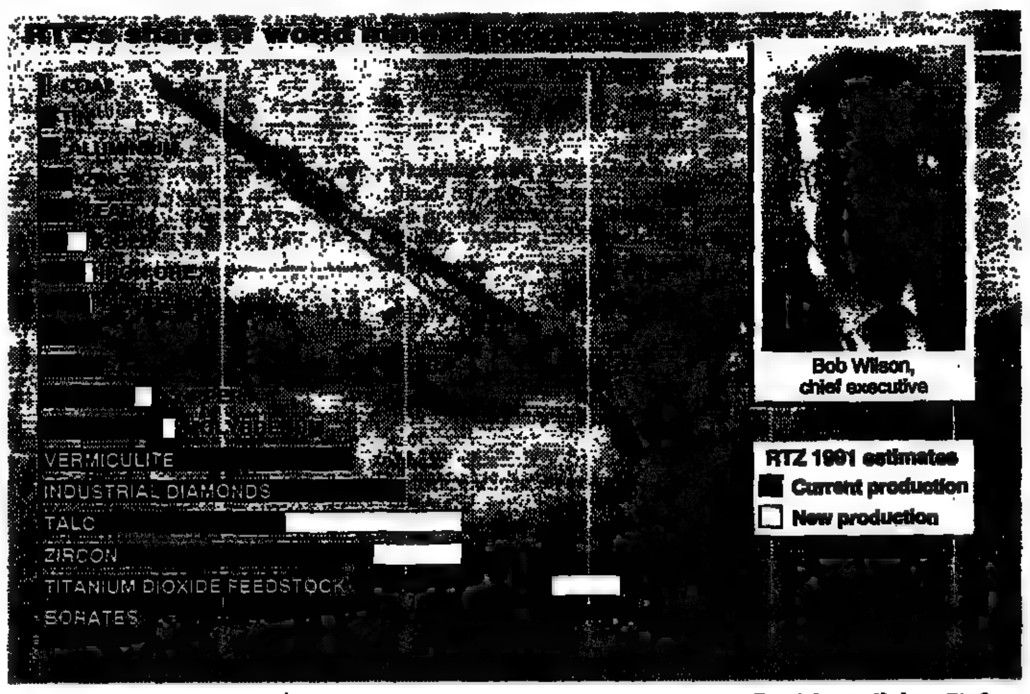
Observers said that the relatively modest growth in CSFB's pre-tax income in 1992 was partly because of its decision to invest large amounts of money in new business development, technology and people, and partly because of the firm's small equity base.

CSFB's equity capitalisation last year was $1.07bn, small by the standards of big Wall Street investment banks. The equity capitalisation last year of Morgan Stanley, for example, was almost three times as large as CSFB's.

The latest figures confirm that CSFB has fully recovered from its problems of two years ago, when its $1.2bn exposure to troubled corporate "bridge loans" forced its parent, the Swiss banking group Crédit Suisse, to launch a financial bail-out of CSFB in 1990. That year CSFB lost $587m, but returned to profitability in 1991.

Nerco acquisition offers UK group prospects for long-term growth, writes **Kenneth Gooding**

RTZ goes west for a foothold in US coal mines



Bob Wilson, chief executive

Coal mining is unglamorous and to the uninitiated investor seems environmentally unfriendly. And it does not look like perfect timing to move into coal mining in the US just after Bill Clinton has been elected president – with a new energy tax and promises to clamp down more firmly on environment-damaging operations.

Nevertheless, that is what RTZ Corporation, the world's biggest mining group, is doing. It is making a $1.16bn entry into US coal mining with the proposed acquisition of Nerco, the floundering natural resources company.

The stock market was perturbed by this diversification and marked RTZ's shares down. Mr Euan Worthington, head of the mining team at SG Warburg, says: "It looks like a very good deal – if you want that sort of deal. But should anyone be buying coal anywhere in the world, even reasonably high-quality coal?"

According to Mr Bob Wilson, RTZ's chief executive, the answer is a resounding: Yes.

His company has been looking for opportunities for some time and towards the end of last year offered to buy Nerco's coal business after the US company's third-quarter results showed it was financially stressed. RTZ was rebuffed then but now is back with an agreed offer for all of Nerco.

The US company will be split up: RTZ will sell Nerco's oil and gas operations and probably its gold and silver mines too but will keep the profitable coal business and merge it with its Kennecott subsidiary in the US. It hopes to build on that base with more coal acquisitions. "This is the first step for establishing a new high-quality business for RTZ in the States," says Mr Wilson.

RTZ is not the only UK company to hunt for US coal. In 1989 Hanson, the Anglo-US conglomerate, took over Consolidated Gold Fields which brought with it a 49 per cent stake in Newmont Mining, which in turn owned about one third of Peabody, the second-largest US coal producer.

Hanson was expected to sell that stake but instead spent $715m to take full control of Peabody and it became a core business destined for expansion.

Coal is now Hanson's fastest-growing business and accounts for more than 30 per cent of the group's capital employed.

So what makes US coal so attractive?

According to Mr Wilson, it offers long-term, if modest, growth prospects. Before Mr Clinton's election the consensus was that electricity consumption in the US would grow by 1.7 per cent to 2 per cent a year and that would provide 2 per cent growth for coal used by the utilities.

Mr Wilson suggests there will also be important changes within coal demand as the US clean air legislation bites deeper during the rest of this decade.

Coal with a high sulphur content from Illinois and the Appalachian Mountains is expected to be displaced by low-sulphur coal from the Powder River Basin which straddles Montana and Wyoming. "So low-sulphur coal demand could grow at better than 2 per cent a year for a long time to come," says Mr Wilson.

Nerco gives RTZ two open pit steam coal mines in the Powder River Basin and a half share in a third. Nerco's share of production was 16.6m tonnes last year and its share of reserves is 580m tonnes.

More than 80 per cent of production from these mines is secured by long-term contracts, 95 per cent of the contracts run into the next century.

Mr Wilson says the mines "are about the lowest-cost in the world", with coal typically costing only $4 a tonne to mine. This is because the deposits are thick and very little waste has to be removed before it can be extracted by cheap, open-pit methods.

The snag is that Powder River coal has to be transported by high-cost railways up to 1,300 miles to reach customers. Also, Powder River coal might be "clean" but it usually contains only a moderate amount of energy compared with Appalachian material.

Nevertheless, the acquisition fits in with RTZ's philosophy of wanting a portfolio of wholly-owned, world-class, long-life, low-cost mining assets.

Neither is President Clinton's proposed energy tax much of a setback. Mr Wilson says this came as no surprise to RTZ. According to the group's analysis, the proposed tax would be less damaging to the coal business than a carbon tax, will hit oil's competitiveness most of all but favours gas against coal.

Via its 49 per cent-owned subsidiary, CRA, RTZ has interests in coal in Australia and Indonesia, "so the business is familiar to us both technically and commercially".

Some time ago RTZ decided to add a wholly-owned coal operation to its core businesses which already include copper, aluminium, gold, titanium, borax and iron ore. It started in the US "because it is the biggest market for coal".

Mr Wilson says there might be opportunities to add to its Powder River Basin reserves because Nerco owns only about 9 per cent of the reserves in the area and there is no dominant producer.

RTZ might well benefit from this fragmentation, particularly as some of the reserves are owned by oil companies which seem to want to move out of the coal. Also "market forces are pushing for rationalisation because it is an over-supplied market".

Over-capacity is keeping coal prices in the spot market low but Mr Wilson suggests they are unlikely to go much lower. RTZ will also look for opportunities to buy into the internationally-traded coal business or add some value by putting some international coal trading companies together.

Analysts suggest that the Nerco deal seems a good one for RTZ. Mr Geoff Campbell, analyst at Ord Minnett, part of the Westpac banking group, says that, while it is difficult to estimate, RTZ seems to be paying only $1 a tonne for Nerco's coal.

Mr Campbell says: "The sector is out of favour at present and not subject to the inflated values seen in some of the base metals sectors."

Steady nerves needed in Spain

Economics Notebook
By Peter Bruce in Madrid

There is near panic in Spain's ruling socialist party and government over the dire state of the economy and the government's own polls suggesting it might even be defeated if an election were held this week.

Fortunately for the socialists, an election can wait until the end of November. But Spain went into recession in the last quarter of 1992 and the mood of the country has taken a turn for the worse in the last month. The government is being paralysed by cabinet divisions, with ministers urging prime minister Mr Felipe Gonzalez to ignore finance minister Mr Carlos Solchaga and relax fiscal policy.

Worse, relations between Mr Gonzalez and the left-wing deputy party leader, Mr Alfonso Guerra have become even more strained than usual.

Momentarily at least, Spain is rudderless and drifting. Last Friday's regular cabinet meeting ended without its equally regular press conference. Earlier, after the official statistics institute reported unemployment had risen to an historic 3.04m in 1992, the government added to the air of unreality by driving up interest rates in secondary markets to defend the peseta from some relatively mild speculation.

"Defending" the strongest currency in the EMS may have been consistent with the government's commitment to exchange rate stability and a strong peseta (to attract foreign currency to its debt auctions). But with bankruptcies at record levels and the jobs created in the 1986-1989 boom fast disappearing, posturing for foreign bond dealers did not, perhaps, strike quite the note the country was looking for in the wake of the unemployment figures.

The Spanish business community has deserted the Gonzalez administration en bloc, furious about the party forcing a watered-down strike law through parliament last week. Opposition from Mr Solchaga, who wanted a tougher bill, was simply ignored in yet another demonstration that when push comes to shove on domestic issues, it is Mr Guerra and the party who rule.

This crunch – recession and election – was bound to catch the socialists sometime. Spain's core problem is its $200bn-plus public debt and the price it pays – high interest rates – to persuade foreigners to finance it. If it cuts rates faster than the Bundesbank, it cannot sell its debt. But unless it does, the recession will probably deepen. One way out would be a third devaluation in a year but this would signal panic to the markets and cause great anguish in neighbouring Portugal.

A second way out, unspoken even a year ago but broadly canvassed now in business and, more timorously, in cabinet, is to pull the peseta out of the exchange rate mechanism and allow the currency to float. Downwards, inevitably.

But this government would not be able to do that. It has staked everything on being a loyal player in the EC and it has, anyway, no way out of the debt trap. The Spanish public purse pays about 15m people – pensioners, the unemployed and a massive civil service – and any serious threat to any of those sectors would unquestionably cost the socialists the election.

Lydie van der Meer
Felipe Gonzalez: has to decide when to hold election

Thus interest rates will have to stay relatively high (13 per cent against headline inflation of around 5 per cent) at least until financing for the year is complete and to keep pressure on employers until the spring wage round is over. There are already worrying signs that settlements are averaging 8 per cent or more.

Faced with all this, Mr Gonzalez has to decide when to hold his election and, then, how to win it.

He first needs to repair the rift with Mr Guerra. Mr Gonzalez is considering running the socialist campaign himself but he has never run an election and Mr Guerra has put him in office three times in a row. This cannot be the end. They have fallen apart over policy before and they are doing so again, but neither is suicidal.

Second, he needs some policies that do not upset the peseta – perhaps the removal of or a cut in a business tax, a public works programme and a possible labour reform that would end obligatory and expensive government arbitrage in large-scale redundancy programmes.

That may or may not be enough but the socialists have time to fine-tune and to steady themselves. Certainly, the victory rolls already being drummed out in the opposition press seem absurdly premature. Their economic platform – outlined earlier this month – is an opportunistic mix of unspecified tax cuts and privatisations and an uncosted promise to create jobs at the expense of cutting inflation.

But Mr Solchaga's orthodoxy may pay off. Inflation is already falling and slowly creating room for interest rate cuts later and the gut feelings of many in business that the recession will be deep and long remain just gut feelings. Who knows? The worst of this could just as easily be over by September.

BSM in talks for October flotation

By Andrew Jack in London

BSM GROUP, owner of the British School of Motoring, one of the UK's largest franchisers, is in advanced discussions to obtain a listing on the London stock exchange later this year.

Mr John Mackie of Morgan Grenfell, who is a non-executive director of the company, said yesterday that a flotation was planned for early October.

Final details are still being prepared, but it is believed that the value of the share offering may be about £50m ($71m).

The BSM proposal comes at a time when a number of companies are considering going public while the equity market is buoyant, including Westminster Health Care which plans to float in the spring.

Mr Mackie said the share offering would provide an exit from ownership for the team which financed the management buy-out of the company in 1990, as well as reduce the level of borrowing and help fund future growth.

BSM has already selected Morgan Grenfell as the sponsoring merchant bank and James Capel as brokers for the float.

It is expected to select Coopers & Lybrand, the auditors, as reporting accountants.

The company reported ordinary profits of £810,000 in the year to December 31, 1991, before a tax credit of £109,000 mostly caused by advance corporation tax written back.

Morgan Grenfell Capital Partners put up £11.5m in equity as part of the £40m buy-out of BSM in April 1990.

COMPANIES AND FINANCE

Westminster Health value may top £100m

By Maggie Urry

THE flotation of Westminster Health Care, the nursing homes group, will go ahead this spring and is expected to value the group at £100m or more.

WHC also announced that interim profits before interest and tax had more than doubled to £4.3m (£2.1m) on turnover of £17m (£9.9m). The prospectus for the float will contain a profit forecast for the year to May 31. In the previous year it made £5.3m before interest and tax, on sales of £23.4m.

The prospectus will also refer to law suits filed in the US against National Medical Enterprises, WHC's US parent. NME has been sued by insurance companies claiming overcharging. NME is defending the suits.

The float, which is likely to raise at least £50m through a placing with a clawback to allow the public to buy shares, will reduce NME's stake in the group to a percentage in the low 40s. However, NME is not taking cash out of the business, rather it will repay WHC's debt and fund further expansion.

The company aims not to ask shareholders for further cash for at least 18 months or two years. A fast rate of expansion is expected. WHC owns 39 nursing homes in the UK with 2,620 beds, mostly in purpose built homes, with a high proportion in single, ground floor rooms with ensuite bathrooms.

WHC has another 9 under construction, adding 737 beds. Mr Pat Carter, chief executive, said that it planned to open 700 to 800 beds a year.

By the financial year end it expects to have 3,230 beds making it one of the larger groups in the industry, although still relatively small in the private sector nursing home market, valued at £2.2bn a year. New openings are likely to mean that second half profits do not rise as fast as in the first half.

WHC's prospectus will also describe the changes taking place in the industry from April 1 as a result of the government's reforms of community care. These shift the funding responsibility for patients who cannot afford private care from central to local government.

Mr Carter said that local authorities are now preparing for the new system, setting prices and giving patients choice within available funding. WHC takes a higher proportion of private patients than most of the operators in the industry.

The leading quoted operator of residential nursing homes is Takare, whose shares trade on a multiple of over 20 times analysts' earnings forecasts for 1992.

Barclays de Zoete Wedd is sponsor to the issue, and de Zoete & Bevan is broker.

Sherwood Computer in two deals

Sherwood Computer Services has paid £300,000 in cash to acquire THS (Guernsey), in a move which strengthens its position in the insurance companies market.

THS (Guernsey) comprises the majority of the assets and business of the company which traded as THS Limited, a subsidiary of English & American Group. At the date of acquisition, THS (Guernsey) had net assets of £1.1m. The deal will give Sherwood the rights to a number of proprietary IBM software products.

In a separate move, Sherwood announced a joint venture with Beta Computers (Europe) to form a new company, Sherwood International. The company is 51 per cent owned by Sherwood, which acquired its equity by way of a subscription for shares for £255,000 cash. The new company has been formed to acquire the rights to PALACE, an advanced life and pensions administration system with international potential.

Cashing in on conservation

Paul Taylor on Vardon's purchase of the Gweek Seal Sanctuary

THERE are no fruit machines or fairground rides at the Cornish Seal Sanctuary on the banks of the Helford river at Gweek. But there are paying visitors – 200,000 of them a year, spending almost £1m between them.

Last week, Vardon, the leisure group which owns the London Dungeon, the York Dungeon and the Sea Life Centres and which obtained a Stock Exchange listing in October, paid £1.8m to acquire the sanctuary.

The deal highlights the increasing interest being shown by leisure companies in conservation which, in turn, reflects growing public concern about the environment and environmental issues.

There is also a greater realism among some conservationists who appreciate that a commercial partnership can help provide a more stable financial framework for their operations. For example, London Zoo's latest survival plan, also unveiled last week, emphasises its research, breeding and conservation work in an attempt to attract visitors rather than the old Victorian-style menagerie concept.

The Cornish Seal Sanctuary was founded by Mr Ken Jones, a former coal miner who in the mid-1950s ran a beach cafe at St Agnes on Cornwall's north coast. One day he found an injured baby seal pup and decided to nurse it back to health. The sanctuary started from there.

Mr Jones continued to build on the work of the sanctuary, caring for injured and abandoned animals, but eventually outgrew his beach cafe site. So in the early 1970s, against considerable local opposition, he obtained permission to build the present sanctuary on a 35-acre site on the banks of the Helford in south-west Cornwall.

The new centre was opened in 1975 and subsequently expanded through a £750,000 building programme to include a visitors' centre, cinema, aquarium, fully-equipped hospital, five seal pools and an exhibition about the effects of pollution.

Most of the funding for the sanctuary was provided by Mr Jones himself, or from visitors' donations and a 25p entrance fee.

However, in 1990 Mr Jones sold the sanctuary to a group of local and West Country investors and retired, something he now deeply regrets because of his fears that it has become too commercialised.

When he heard a week ago that Vardon had approached the Seal Sanctuary with a view to buying it, he tried to raise the money to buy it back himself, but had insufficient time to do so.

Since he sold his interest, the sanctuary has been run on a commercial basis by Seal Sanctuary Plc, although most visitors might not have realised it had switched from an amateur, charitable organisation to a business footing.

Indeed, the sanctuary's new commercial owners did little to advertise their presence. Visitor literature and notices around the sanctuary thank customers for their "support" and still invite donations.

The fences surrounding the seal pools are covered with the names of families and children who have financially sponsored or adopted a seal. It is a moot point whether these funds would have been so available had the donors appreciated the changed status of the sanctuary.

Today, the sanctuary charges an entry fee of £2.50 for adults and £1.50 for children. On Sundays, more than 1,000 people visit the attraction. Last year it made a pre-tax profit of £124,000 after paying £251,000 in interest and non-recurring charges.

Nevertheless, the sanctuary performs a vital conservation function. There are only an estimated 100,000 Atlantic Grey Seals in the world and two thirds of them are found around the coast of Britain. Until they were protected, the population was declining and only about 400 are thought to remain around Cornwall and the Isles of Scilly.

The conservation work undertaken by the Gweek sanctuary will mesh closely with the work of the Sea Life Centres which Vardon acquired in October.

Sea Life operates seven wholly owned and one 50 per cent owned centres around Britain. It is building another in Southend and one in Scheveningen, Holland. Despite the recession, in the year to December 31 the centres posted a profit of £2.15m, a 19 per cent increase on the previous year.

The Sea Life Centre at Oban, in Scotland, already operates a scaled-down version of Gweek's rescue facilities. Volunteers from both Oban and Gweek worked together on a seal rescue programme in the wake of the Braer oil-spill in the Shetlands.

All the centres have rescue and rehabilitation facilities and operate their own successful environmental programme called "Sea Watch".

Mr David Mace, Sea Life's founder and managing director, says Vardon plans to open two new centres a year.

However, as a marine biologist, he is also sensitive to the concerns of those who fear that conservation and commercial interests do not mix. He says: "We are certainly not going to change the sanctuary's aims and ambitions". He adds that conservation will continue to be pursued with "vigour".

And already, the sanctuary's new owners have moved to reassure other sceptics like Mr Jones. "They have told me they will run it the right way. I hope they will, but we will keep an eye on them," he says.

Ashley Ashwood

Oblivious of the change of ownership: a seal is fed his dinner

BZW moves to regroup capital market operations

By Richard Waters

BARCLAYS DE Zoete Wedd, the investment banking arm of Barclays, the UK clearing bank, has regrouped its capital market operations in an attempt to boost its activities in the debt and structured finance areas.

Like rival NatWest Markets, which has been through an extensive reorganisation of its own, BZW's move appears to demonstrate a recognition that its debt and derivatives operations lag behind more ambitious US and continental European rivals in London.

The bank's bond activities have been largely restricted to sterling in the past, though last week it won its first big European currency unit mandate as joint lead manager on an Ecu500m bond issue for the European Investment Bank.

The new debt capital markets group comprises bond origination and private placements, structured finance – previously part of the corporate finance unit – and swaps and options.

Debt trading and sales activities will remain in the bank's markets devision, though swap and options trading will be part of the new group.

Mr John Spencer, managing director of Barclays' financial markets group, said the changes did not signal any wider shake-up of BZW's corporate finance operations.

Riva settles Hugin claims

Riva Group, the USM-quoted supplier of electronic point of sale systems, has concluded settlement of its claims arising from its acquisition in 1989 of Hugin Sweda Group.

Under the settlements, KPMG Peat Marwick, Riva's former adviser, and the underwriters of directors and officers and company reimbursement indemnity policies are to pay sums of about £1m. Both KPMG Peat Marwick and the underwriters deny liability.

Riva has also settled certain claims made against the group in Sweden following the liquidation of the former Hugin Sweda subsidiary, Hugin Sweda International. As a result, £264,000 has been released to the 1992 profit and loss account.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Kingfisher (UK)	Darty (France)	Retailing	£560m	Creating European power
RTZ (UK)	Nerco (US)	Mining	£331m	Move into US coal
Bowater (UK)	Specialty Coatings International (US)	Specialist coatings	£305m	Bowater transformation continues
Investor Group (France)	Adidas (Germany)	Sports goods	£255m	Tapie selling control
Investor Group (Hong Kong)	Westcoast Petroleum (Canada)	Oil & gas	£138m	Taking substantial stake
Gehe (Germany)	Office Commercial Pharmaceutique (France)	Pharmaceuticals distribution	£99m	Agreed offer
Metallgesellschaft (Germany)	Minnova (Canada)	Mining	£63m	Buying out minority
Anglian Water (UK)	Nordic Water (Sweden)	Process engineering	£36m	Water diversification continues
Scapa Group (UK)	Oberdorfer Group (Germany)	Fabrics	£11m	Core business expansion
Synthelabo (France)	Lorex Pharmaceuticals (UK)	Pharmaceuticals	n/a	Taking full control

INTERNATIONAL COMPANIES AND FINANCE

Earnings of A$36m for Fairfax at halfway

By Kevin Brown in Sydney

JOHN Fairfax, the Australian newspaper group controlled by Mr Conrad Black's Daily Telegraph group, has announced interim net profits of A$36m (US$24.4m) for the six months to end-December.

Fairfax, which was floated on the Australian Stock Exchange in May, said the figures were not comparable with the first half of the previous year, when the group was in receivership.

However, the group earned net profits of A$27m in the six months to June, after offsetting an income-tax liability of A$11.5m against tax credits carried over from the receivership. Sales were A$388.5m compared with A$357.4m in the second half of last year.

Fairfax said it benefited from higher advertising revenue and lower net interest costs, reflecting Australia's falling interest rates and gradual recovery from recession.

Sales of the Sydney Morning Herald and The (Melbourne) Age increased, but the group said the difficult business environment was responsible for a 3 per cent fall in the circulation of the Australian Financial Review.

The board said it had decided in principle to build a A$300m printing plant in Sydney, which is intended to match the improved printing facilities installed by News Corporation, Australia's biggest publishing group.

The group said the plant would be operational by 1996, allowing improved presentation of its newspapers and reducing production costs. "These factors are expected to have a significant positive impact on the long term competitive strength of the company," the board said.

The directors said there would be no dividend, in line with forecasts in the flotation prospectus.

The Daily Telegraph owns 15 per cent of Fairfax, but has applied to the federal government for permission to lift its stake to 20 per cent.

Six-month profit at RWE slips as rights issue looms

By David Waller in Frankfurt

NET PROFITS at RWE, one of Germany's largest industrial groups, slipped fractionally during the six months to December, the first half of the Essen-based group's current financial year.

Excluding minority interests, net profits fell to DM395m ($241m) from DM398m a year earlier, while turnover rose by 2.5 per cent to DM26.7bn from DM26bn.

RWE is planning to hold its long-awaited rights issue next month. Last year it won approval for shareholders to increase its share capital by as many as 6.2m new shares. Analysts expect the company to raise between DM1.6bn and DM1.7bn from the issue.

The group said that despite the downturn in the German economy, it was confident that in the year to the end of June it would be able at least to hold sales and profits at the same level as in 1991-1992.

Energy, construction and related businesses continued to do well, RWE said. Combined with cost-cutting and other rationalisation measures in other sectors such as printing equipment and oil, the group is hopeful that it will be able to maintain its dividend at the same level as last year – DM12 per share. This will be payable on the new shares issued in next month's rights issue.

In energy production, turnover in the first half of the year was stable at DM9.2bn, while in oil and chemicals turnover dropped 7 per cent to DM10.3bn.

RWE was at the centre of controversy in December when shareholders voted to retain an antiquated voting rights structure giving local authorities in the Ruhr area 60 per cent of the votes although they own only 30 per cent of the shares.

Calpers, the large US investor, said at the meeting that it was naive of RWE to retain voting rights restrictions while expecting to enjoy continued access to international markets. Although the vast majority of independent shareholders voted to remove the special voting rights, the local authorities blocked the initiative.

Pinault considers Prisunic sale

By Alice Rawsthorn in Paris

PINAULT, the French retail group, is considering the sale of Prisunic, one of France's largest store chains, as part of its efforts to raise capital to reduce the debt left by its takeover of the Au Printemps stores group.

Galeries Lafayette, one of Printemps' main rivals in the department store sector, is mooted as a prospective purchaser. Galeries Lafayette, already burdened by FFr2.8bn ($505m) of debt after its acquisition of the Nouvelles Galeries group, has denied French newspaper reports that it was in negotiations with Pinault. However, it left open the possibility of future talks by saying it "did not envisage bidding for Prisunic at present".

Prisunic, a chain of 94 mixed merchandise stores with 230 affiliates, is a leading player in French retailing. It came to the fore in the 1970s when it was influential in introducing contemporary design to France, fulfilling a similar role to Habitat in the UK.

The group has come under pressure in recent years, reflecting the sluggish state of French consumer spending and the intensely competitive condition of the retail sector. It made operating profits of just FFr34.3m on sales of FFr4.9bn in 1991.

Pinault has been selling assets for some time. Initially it concentrated on its old industrial interests but in recent months has started selling its recently acquired retail interests. Pinault, which is reported to hope to raise FFr2bn from the Prisunic sale, has also reshuffled its finances in an attempt to alleviate the burden of its FFr19bn net debt.

Shortfall at Air Canada worsens

By Robert Gibbens in Montreal

HEAVY fare discounting to maintain market share and restructuring charges brought Air Canada's 1992 net losses to C$454m (US$361m), or C$6.13 a share, against losses of C$218m or $2.94 a share, the year before.

Revenues were barely changed at C$3.5bn. Domestic markets continued to be depressed because of the recession and Atlantic routes were highly competitive.

The only favourable sign was an upturn in operating results for the fourth quarter, said Mr Hollis Harris, president. Operating costs were reduced 10 per cent in 1992 and 2,200 jobs were eliminated.

The 1992 final loss was worse than analysts had forecast. On an operating basis before all special charges, Air Canada's operating loss was C$145m, against C$164m.

Air Canada has warned it will lose about C$200m in 1993, with further rationalisation of equipment and manpower, and hopes to return to profitability in 1994.

Mr Harris said having two Canadian airlines operating internationally was counter productive. He called again for a merger with rival Canadian Airlines, now trying to complete a stock and operating alliance with American Airlines.

PWA, Canadian's parent company, forecast it would report a heavy 1992 loss later this month.

Metsä-Serla cuts losses by half to FM290m

By Christopher Brown-Humes in Stockholm

METSA-SERLA, the Finnish forestry group, cut losses after financial items to FM290m ($49m) in 1992, less than half the previous year's FM635m deficit.

The improvement came despite FM275m in exchange rate losses and reflected the benefits of cost-cutting, improved efficiency and the fall in the value of the markka. There will again be no dividend.

The group believes it will show a profit after financial items in 1993, with sales increasing to FM8bn. It says its strategy of product specialisation should assist the recovery, although it expects general market conditions to remain difficult.

"Metsä-Serla's main targets are to improve profitability, secure a good cash flow and reduce indebtedness," it said.

Sales for 1992 rose to FM7.75bn from FM7.74bn, although allowing for divestments, the increase was 9 per cent.

The devaluation of the markka compensated for the sharp fall in market prices, the company said.

The operating margin climbed to FM1.23bn from FM896m while operating profits rose to FM718m from FM391m.

Corrugated board and tissue was the group's best performing sector, increasing operating profits to FM352m from FM242m.

Paper and paperboard produced an operating profit of FM199m, up from FM190m, while sawn paper and pulp managed FM167m of profits after 1991's FM41m losses.

● Hafnia, the Danish insurance group which is up for sale, has sold Cambio + Valoren, its Swiss asset management bank, to Union Bancare Privée, the Geneva-based private bank, writes Hilary Barnes in Copenhagen.

The deadline for offers to buy Hafnia, which was placed on the market last autumn, passed last week.

Deficit deepens at troubled Elkem as dividend omitted

By Karen Fossli in Oslo

ELKEM, the troubled Norwegian light metals producer, yesterday revealed sharply increased net losses in 1992, and warned it would omit its dividend payment for the third year running.

Net losses last year rose to NKr616m ($89m) from NKr443m in 1991 while sales fell by NKr514m to NKr7.3bn. Elkem said its main markets continued to be plagued by weak demand, high levels of exports of metals and alloys from China and eastern Europe, and over-capacity.

"The company considers that there are no reasons to expect significant changes in the market situation in 1993," Elkem warned further.

Group operating costs were cut by NKr63m to NKr6.99m but the company pledged to continue cost-cutting efforts. The number of employees was cut by 679 045 last year.

Elkem said cost reduction measures announced in the second half of 1992, including a further cut in its workforce and renegotiation of raw materials contracts, would have a positive effect in 1993. The company charged accounts with a NKr125m loss on Elkem Technology and NKr86m for restructuring.

However, the charges were offset by a NKr214m gain on the sales of assets and a NKr50m tax reduction. Elkem's shareholdings in associated companies yielded net losses of NKr76m in 1992 against profits of NKr58m previously.

Net interest expenses rose to NKr431m from NKr416m in 1991. Elkem said it suffered foreign currency losses on debt of NKr33m in the fourth quarter. Finance expenses rose to NKr511m from NKr431m in 1991. "Financial costs were also affected by the high level of interest rates in domestic money markets in the fourth quarter."

Elkem said its financial base had been strengthened in the fourth quarter by NKr580m raised from a share issue, gains from assets sales and the establishment of a NKr550m credit facility.

GM offers salaried staff paid leave in job cuts plan

By Patrick Harverson in New York

AS PART of its cost-cutting drive, General Motors, the largest car manufacturer in the US, is offering salaried employees paid leave of between six and 15 months if they agree to leave the company once the leave is completed.

GM hopes that the plan, combined with natural attrition, will reduce its white-collar workforce by 8,000, or 10 per cent, before the end of the year. Only salaried employees who have been with the car maker for more than a year are eligible for the plan.

The company has already had success with its early retirement programmes for white-collar workers over 50 years old, which have helped reduce the salaried workforce from 91,000 to 76,000.

Overall, GM is trying to cut 74,000 white and blue-collar jobs.

● Toyota, Japan's leading car maker is considering manufacturing pick-up trucks in the US after the collapse of talks with General Motors over a joint venture, writes Charles Leadbeater in Tokyo.

Toyota said it would start looking at whether to set up its own production facilities in the US after GM rejected proposals for a joint venture to make the Toyota T100 truck. "Partnership with GM was one of our choices," it said.

Toyota started exporting its T100 truck to the US last autumn, but sales have been restricted by the 25 per cent tariff charged on imports. This led Toyota to consider manufacturing the truck in the US.

NEWS IN BRIEF

Swiss watch maker steps up payout

SOCIETE Microélectronique et d'Horlogerie, the world's largest watchmaker, has posted a 60 per cent rise in net profits to more than SFr400m ($265m) for 1992, from SFr252m, writes Ian Rodger in Zurich.

SMH, known for its Swatch, Omega, Longines and Tissot brands, is proposing a dividend of SFr18 a share, against SFr14, and a five-for-one share split.

■ DG Bank, the Frankfurt-based central bank for the German co-operative movement, increased operating profits to DM340m ($204.8m) last year from DM94m in 1991, writes David Waller in Frankfurt.

However, the bank, which is in the throes of restructuring, did no more than break even at the net level, after increasing provisions against doubtful country and corporate risks.

■ Haydaux du Tilly, the Paris stockbroker, is being taken over by Crédit Agricole, one of France's biggest banks, writes Alice Rawsthorn in Paris.

After family shareholders of Haydaux were forced into a FFr62m ($11.3m) recapitalisation, Crédit Agricole provided most of the new capital lifting its stake from 30 to 90 per cent. The family provided 10 per cent.

■ Huntsman Chemical, a privately-owned US chemical group, has agreed to buy half of Chemplex Australia from Consolidated Press, Mr Kerry Packer's Australian media and industrial group, writes Kevin Brown in Sydney.

ConsPress had agreed to sell Chemplex to Sentrachem, the South African chemicals group, but the deal fell through after a disagreement over the price.

■ Rodamco, Europe's largest property investment fund, has bought 50 per cent stakes in three Australian shopping centres for Fl 650m ($347.5m) cash, Reuter reports from Rotterdam.

The remaining stakes will be held by Westfield Trust, an Australian property fund.

UK GILTS

Economic indicators point to long-end gains

THE long end of the gilt market made further gains last week, due to more settled news on inflation and a slight easing of fears about the public sector borrowing requirement (PSBR).

Gilt investors were cheered by news of yet a further slowing in the year-on-year rate of increase in average earnings. This came down to 4.75 per cent in December, from 5 per cent in November, and represents the smallest rise in 25 years.

There was also some optimism that a higher-than-expected £3.83bn surplus in government finances in January might indicate a slight easing in the pressures on the PSBR.

While long-dated gilts slipped in yield by about 20 basis points over the week, prices at the short end stayed virtually the same, with little to suggest any immediate cut in bank base rates.

Friday's first report by the Treasury's panel of outside economic advisers provided a tonic for the gilt market in one respect, in its espousal of the abandonment of the full-funding rule for financing the PSBR.

Such a step – which is being examined by the Treasury before the March 16 budget – would mean purchases of gilts by banks and building societies would count towards financing the deficit, expected to be about £37bn this financial year and nearly £50bn in 1993-1994.

The move has been advocated for months by many gilt specialists on the grounds that the action would reduce the amount of issues required over the next few years. As a result it might pull down long-dated gilt yields.

The report from the seven-strong panel was generally gloomy about the UK's short-term economic outlook, putting likely growth this year at just over 1 per cent. It said there was uncertainty about whether a significant recovery would take place, while underlying inflation this year is likely to stay within the 1 to 4 per cent target range set by the Treasury.

Further good news on inflation came from labour market data which underlined the firm downward pressure on wage settlements. The year-on-year rise in the index of underlying earnings across the economy has now come down in every month since June when it was 6.25 per cent.

With all the signs being that the government will probably stick to its target of keeping rises in public sector wages at 1.5 per cent or less, the prospect of further falls in wage inflation in the months ahead look reasonably good. Even so, this may not necessarily feed into the headline inflation rate.

According to the Treasury's economic advisory panel, inflation as measured by the year-on-year increase in the retail prices index will rise from 1.7 per cent last month to 2.6 per cent by the end of this year and 3.6 per cent by the end of 1994.

Few analysts, however, are getting too excited about any build-up of cost pressures which may be in the pipeline. Most economic statistics continue to indicate fairly stagnant demand. The latest retail sales data did show a better than expected 1.6 per cent rise in sales volumes in January compared with December.

But much of this was a rebound from a poor Christmas period. In the three months to the end of January, sales volumes were up a modest 0.2 per cent compared with the previous three months, significantly less than the quarterly rises in the middle of last year.

On the PSBR, the large surplus in January – the first for a year – is likely to be countered by big deficits this month and in March as technical changes related to the collection of tax revenues work their way into the figures.

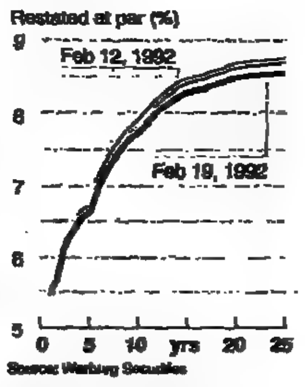
However, the publication of the January number diverted many gilt practitioners from the extremely large forecasts for the PSBR for the 1992-1993 financial year which have been published by some in the City in recent weeks.

On the back of the January number, Mr Chris Anthony, an economist at the normally extremely bearish UBS Phillips & Drew, says he thinks the PSBR for the year will come out at £35bn, £2bn less than the prediction made by the Treasury last November.

Peter Marsh

UK gilts yield

Restated at par (%)



Source: Warburg Securities

US MONEY AND CREDIT

President delivers a rosy outlook for Treasuries

IT IS unlikely that any new president in modern history has received so enthusiastic a reaction from the domestic bond markets as has Mr Bill Clinton the past week.

When he won the presidential election on November 3, the yield on the benchmark 30-year government bond was standing at 7.645 per cent and the yield on the two-year note was 4.416 per cent.

On Friday, after a week-long rally in bond prices, the 30-year yield had plunged to 7.000 per cent and two-year yield had dropped to 3.945 per cent.

The 30-year is now recording the lowest yield since the issue was first sold to the public in 1977. Given that Democratic presidents are normally regarded as the enemy of fixed-income investors – because they like to use the power of the government to generate economic growth, a policy approach that can have inflationary consequences – the performance of the bond markets under President Clinton has been remarkable.

The recent strength in bond prices can be put down to a variety of factors, but one has been dominant – a surprise among Treasury investors at the president's willingness to propose tough, politically unpopular measures to cut the huge federal deficit.

Last week's economic plan from President Clinton, a mixture of big tax increases, selected spending cuts, and targeted government "investments" – a euphemism for more spending – was a braver assault on the deficit than the bond market could ever have imagined in the pre-election days of mid-1992.

The president's economic package – which is geared to short-term economic stimulus this year but which quickly shifts its focus towards deficit-reduction in 1994 and 1995 – has been welcomed by bond investors not just because it tackles the deficit problem.

The plan has also earned applause because the Treasury market believes the net effect of the measures proposed in the State of the Union address last week will be to slow the rate of economic growth in 1994 and possibly beyond.

This is not only good news on the inflation front, but also in terms of the direction of monetary policy. As Mr Neal Soss, chief economist at First Boston, said of the president's economic package last week: "This is extremely bullish for securities markets, because it postpones the prospects for any Federal Reserve tightening of monetary policy."

Mr Soss believes that the tax increases will effectively take the place of interest rate rises as the main method of pacing economic growth and stifling inflation.

President Clinton, however, cannot claim all the credit for the bond rally. Prices have been driven higher recently by at least two other factors. One has been the flight to quality by investors frightened by the dramatic downturn in stock prices after the president's tax increases were first announced.

The other has been the continued speculation that the Treasury plans a big cut in the size of future long bond issues as part of a plan to reduce the cost of servicing the federal deficit.

The flight to quality will probably continue to benefit the bond market until equity investors have grown more comfortable with the new economic policy emanating from the White House, and despite hints from the Treasury to the contrary, longer-dated prices will also continue to benefit from expectations of future cuts in long-bond issuance.

Consequently, the market's short-term outlook looks rosy. As Salomon Brothers said on Friday: "If the key 7 per cent threshold on long Treasury yields is breached – as we expect – long-term yields are likely to head toward 6¼ per cent."

Patrick Harverson

CANADIAN BONDS

Passionate embrace fosters flood of issues

GOVERNMENTS with hefty borrowing requirements and investors looking for decent yields at low risk are embracing each other with a passion in the Canadian bond market.

International and domestic issues by all levels of government in Canada have exploded recently. Borrowings in January exceeded C$10bn.

Last week alone, Quebec raised C$1.4bn through its first global issue and Manitoba tapped the Yankee market for US$300m. At home, the federal government priced a C$1.8bn five-year issue, while Prince Edward Island raised C$60m.

The market has so far absorbed the flood of new issues – not to mention numerous EuroCanadian offerings by non-Canadian borrowers – with remarkably little indigestion.

Spreads between Canadian and US bond yields widened in January when domestic institutions were net sellers, but the gap has narrowed more recently. The benchmark Government of Canada 10-year bond yielded 7.49 per cent towards the end of last week, 135 basis points higher than equivalent US Treasuries. The gap was as wide as 164 points in January.

"There's a slight cost to this, but less than I would have expected it to be," says a government-finance specialist at one Toronto securities firm.

The surge in borrowing stems from yawning budget deficits at both the federal and provincial levels. The federal deficit is expected to jump to C$34.5bn in the fiscal year to March 31 1993, compared to a projected C$27.5bn in last February's budget.

Royal Bank of Canada estimates that the 10 provinces will have a combined budget deficit of C$23.5bn this year, up from C$22.2bn in 1991-1992 and C$9.8bn the previous year. Public sector borrowings in the domestic market could top C$60bn in 1993 as a whole.

The supply of funds has so far matched, and even outstripped, demand. Some smaller provinces are said to have been offered a year or two's requirements in a single issue.

For investors, the main attraction has been the combination of a stable currency, a more generous yield than US securities with little extra risk, and a liquid market.

Mr David Adamo, director of fixed-income research at ScotiaMcLeod, says: "If you're a US or European investor looking for an attractive rate in a country with minimal inflation, Canada looks good."

Prices, especially at the short end, are expected to remain firm for the time being. With the economy still weak, analysts predict further falls in short-term interest rates with inflation at 1 to 2 per cent. Canadian securities will also benefit from any further improvement in the US bond market.

Mr Daniel Kelly, vice-president for fixed-income research at Wood Gundy, adds that the Canadian provinces, almost all of which have single-A credit ratings or better, will continue to have access to the Yankee market "as long as people are reasonably optimistic on the US dollar and US interest rates".

But a warning shot was fired over the market last week by the C.D. Howe Institute, one of Canada's premier economic think-tanks. The institute reported that most of the 19 economists at a recent seminar on the fiscal outlook felt that Canada's public debt burden has grown to the point where "continued easy access to financing cannot be taken for granted".

Mr Warren Jestin, chief economist at Bank of Nova Scotia, suggested that uncertainty about the outcome of Canada's general election later this year, further bad news on provincial finances, or evidence that Ottawa will have difficulty cutting its deficit "could all trigger a less receptive borrowing environment".

Demand for funds, especially from the provinces, shows few signs of easing, however.

Mr Benoit Durocher, a Royal Bank economist, predicts that provincial deficits will not come down much in 1993-1994. While tax revenues will rise as the economy accelerates, finance ministers can no longer rely on inflation to push taxpayers into higher income-tax brackets, or to boost receipts from sales taxes.

Bernard Simon

FT/ISMA INTERNATIONAL BOND SERVICE

[illegible]

INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL BONDS

Borrowers turn attention to global offerings

THE CONCEPT of global bond offerings is catching the attention of a growing range of borrowers. Last week, the Kingdom of Sweden, the World Bank and the Canadian Province of Quebec all launched large global bonds.

The process of offering bonds simultaneously in the US, Europe and the Far East allows borrowers to raise larger sums and to place paper at the best possible price. Not surprisingly, borrowers are eyeing the mechanism closely, but it does have some limitations.

The concept was pioneered by the World Bank, which launched a $1.5bn issue in September 1989. Last week's Y200bn global bond issue was its tenth, and it plans to launch the first D-Mark global offering later this year.

Mr Kenneth Lay, director of financial operations, says that one of the main motives was to achieve a single world price for its bonds.

This has resulted in what the World Bank regards as a more accurate valuation of its bonds, thereby increasing investor confidence in the pricing of the paper.

Prior to the start of its global programme, there was often a yield differential of 10 to 20 basis points between World Bank Eurobonds and bonds placed in the US market. In practice, all triple-A credits are not the same: European investors were willing to pay a higher premium for World Bank paper than US investors. Under the global programme, the knowledge that there would be a strong bid for the paper in Europe helped increase US investors' confidence.

But there are other differences between US and European investors. European investors are heavily influenced by their views on the currency outlook, buying dollar bonds aggressively when the dollar looks set to rise. Japanese investors take a similar approach, but the timing is different, since there are occasions when, for example, the dollar is weak against the yen but firm against European currencies. US investors on the other hand are blind to such considerations.

So far, there have been global offerings in dollars, Canadian dollars, and yen. Global bonds denominated in D-Marks and French francs are expected this year.

That experiment may be less successful. Although both currencies are increasingly widely traded internationally, US fund managers are still far more averse to currency risk than their European counterparts. US bankers are sceptical about how well the structure would function, given that most US fund managers still want to buy only dollar bonds.

So far only two corporate borrowers, Matsushita Electric Industrial of Japan and Ford Motor Credit of the US, have issued global bonds, and the scope for more global corporate bonds appears limited. Few companies need to borrow sums of $1bn or more in one go.

Further, differences in credit perception between corporates from different countries are more difficult to overcome. For example, Ford's recent global offering was mostly placed in the US, where Ford paper trades far tighter than in Europe.

The greater familiarity of investors with domestic companies is likely to mean that the advantages of global bond offerings for companies are more limited: when a single-A rated UK company launches a long-dated sterling bond, it is likely to be placed with a small base of domestic investors, even if it were to be packaged as a global offering.

The global bond market is less a single market, than the linking of a number of different markets, to the benefit of both investors and borrowers.

Global bonds combine the features of US bonds and Eurobonds. The borrower has to register its intended offering with the US Securities and Exchange Commission (SEC) and get its prospectus approved by the SEC, as for a US domestic bond.

But global bonds have the same fee structure as for Eurobonds, which is cheaper than the US market.

Efficient distribution and settlement between markets in different parts of the world have considerably reduced price spreads because the bonds can flow to areas of greatest demand.

Secondary trading in global bonds is facilitated by the formal bridge between the Depository Trust Company (DTC) in the US and the European clearing houses, Euroclear and Cedel. The Bank of Tokyo operates a book entry register for yen global bonds, and depositary and custodial links are established between Euroclear, Cedel and DTC to enable the transfer of those bonds against payment.

"The bonds can therefore be settled freely in each market," says Mr Charles Berman, director in the capital markets group at Salomon Brothers in London.

Antonia Sharpe and Tracy Corrigan

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Toshoku Finance Neth.(f)‡	10	Jun.1996	3.27	(f)	100	Nippon Credit Int.	-
Sanwa Finance Aruba(h)‡	300	(h)	(h)	(h)	100	Sanwa International	-
Crédit Lyonnais(i)‡	100	Mar.2003	10	(i)	100	Kidder Peabody Int.	-
Toa Corp.(c)♦	150	Mar.1997	4	2.125	100	Nikko Europe	-
Gruma(a)	125	Mar.1998	5	8.75	99.95	Lehman Brothers Int.	8.763
Petroleo Brasileiro(a)	110	Mar.1995	3	8.875	99.798	Salomon Brothers Int.	8.988
Kingdom of Sweden(a,m)	2bn	Mar.2003	10	6.5	99.536	Salomon Bros./ MSI	6.564
Thames Inv'ments No.2(q)‡	125	Mar.1997	3.98	(q)	100	Samuel Montagu	-
World Bank(r)‡	100	Mar.1996	5	(r)	100	Lehman Brothers Int.	-
Credito Argentino(a,s)	75	Mar.1995	2	10	99.343	Citicorp Inv'ment Bank	10.880
Crédit Lyonnais(u)‡	500	Mar.1996	3	(u)	99.55	UBS P&O Securities	-
Banesto Issuance(Cay.)(v)‡	150	Mar.1996	3	(v)	99.9	Merrill Lynch Int.	-
Regency Sq.Fin.Corp.(w)‡	57.5	Mar.1998	5	(w)	99.75	Merrill Lynch Int.	-
YEN							
Riso Kagaku Corp.(a,b)§	10bn	Mar.1998	5	2.6	100	Nikko Europe	-
Japan Airlines Company	40bn	Jun.1998	5.27	4.5	101.725	Nikko Europe	4.224
Japan Airlines Company	20bn	Mar.1998	5.02	4.6	101.725	Yamaichi Int.(Europe)	4.211
World Bank(m)	200bn	Mar.2003	10.05	4.5	99.72	IBJ /MSI /Nikko	4.535
Kobe Steel	30bn	Jun.2000	7.28	5.1	101.8	Nikko Europe	4.797
Kobe Steel	30bn	Jun.1998	5.27	4.7	101.725	Nomura Int.	4.323
D-MARKS							
Taiyo(g)‡♦	25	Mar.1998	5	(g)	100	Daiwa Bk.(Deutsch.)	-
BMW Finance(l)‡	200	Mar.2003	10	(l)	100	Commerzbank	-
Andalusia	400	Mar.1998	5	7.25	102.2	Dresdner Bank	6.717
Hamburgische LB(p)‡	100	Mar.2003	10	(p)	100	Trinkaus & Burkhardt	-
FRENCH FRANCS							
CNA(t)	2bn	Mar.2004	11	8	99.57	Paribas Cap.Mkts.	8.090
STERLING							
Argyll Group	150	Mar.2000	7	8.125	100.725	CSFB	7.986
CGF(x)	100	Mar.2003	10	8.125	101.6	Morgan Stanley Int.	-
ECUS							
European Investment Bank	500	Mar.2000	7	7.75	99.985	BZW	7.753
CANADIAN DOLLARS							
World Bank	250	Mar.1998	5	7.25	101.185	RBC Dom.Secs.Int.	6.966
Province of Quebec(a,m)	1.25bn	Jan.2023	29.87	9.375	99.582	M.Lynch/ScotiaMcL.	9.415
European Investment Bank	350	Mar.2000	10	7.5	101.1	Salomon Brothers Int.	7.294
Kingdom of Denmark	250	Mar.1998	5	7.5	100.906	Merrill Lynch Int.	7.270
EBRD	250	Mar.1998	5	7.375	101.235	RBC Dom.Secs.Int.	7.073
Nordic Investment Bank	300	Mar.1998	5	7.5	101.205	Goldman Sachs Int.	7.205
Asian Development Bank	250	Mar.2003	10	7.875	100.975	ScotiaMcLeod	7.731
Finnish Export Credit	100	Oct.1998	5.5	7.75	100.375	Hambros Bank	7.646
GUILDERS							
Finance for Danish Industry	150	Mar.2000	7	7	100.25	De NIB	6.954
Bk.for Dutch Municipalities	1.5bn	Mar.2003	10	7	101.3	ABN Amro Bank	6.816
NEW ZEALAND DOLLARS							
State Bk.New South Wales	50	Apr.2003	10	9	101.8	Hambros Bank	7.736
PESETAS							
Eurofima(l)	10bn	Mar.2003	10	11.1	101.6	BN Argentaria	10.830
SWISS FRANCS							
Toyo Construction(c)♦♦	100	Feb.1997	4	1.5	100	Credit Suisse	-
Nishikawa Rubber Co.(d)♦♦	55	Feb.2000	7	2.625	100	Banca del Gottardo	-
Uniden Corp.(e)♦♦	150	Mar.1997	4	1.5	100	Daiwa Secs.Bk.(Switz.)	-
Kyoto Tool Co.(k)♦♦	25	Mar.1997	4	1.5	100	Nikko Bank(Switz.)	-
Misawa House Ind.(a,k,n)♦♦	60	Mar.1997	4.07	3.75	100	J.Henry Schroder Bk.	-
Japan Finance Corp.	350	Mar.2000	7	5	102.5	Credit Suisse	4.575
Kingdom of Belgium♦	200	Apr.1998	5	5	101.75	UBS	4.600
CSFB Finance Amsterdam	150	Mar.1999	7	5.25	102	Credit Suisse	4.858
LUXEMBOURG FRANCS							
BBL International	1bn	Mar.2003	10	8	102.375	Crédit Européen	7.662
Banque Indosuez	800	Mar.2003	10	7.875	102.5	BCEE	7.511

Final terms and non-callable unless stated. [illegible] 7.8125%, after 10/3/95. 20,000 floors issued separately at DM250 each entitle holders to supplementary interest payments when coupon dips below 7.5% after 10/3/95. i) Matador bond. k) Final terms fixed on 22/2/93. l) Coupon pays 6-month Libor [illegible] maximum 9.25%. m) Global issue. n) Refixing clause: conversion price can be adjusted downward on 26/4/95 by a maximum of 20%. o) Final terms fixed on 25/2/93. p) Coupon pays 8.5% fixed annual in first year and 13% - 6-month Libor thereafter. [illegible] until 1/9/93 and 6-month Libor + 0.35% thereafter. Coupon payments cannot fall below or exceed 0.5% above the previous coupon. r) Coupon pays (0.5 × the 10-year CMT) + 1.45%; minimum 4.6%, maximum 25%. s) Puttable on 3/3/95 at 98.03%. t) Borrowers full name: Caisse Nationale des Autoroutes. u) Coupon pays 3-month Libor + 0.125%. v) Coupon pays 3-month Libor + 0.25%. w) Coupon pays 3-month Libor + 1.1%. Secured by Regency Square Mall, Jacksonville, Florida. Callable on all payment dates. x) Partly paid issue: 20% due on 17/3/93 and balance on 17/3/94. Note: Yields calculated on ISMA basis.

RISK AND REWARD

UK equity options trading fails to find its stride

EQUITY options trading in Germany has surged in the last few years, despite the relatively low level of stock investment in Germany.

But the UK equity options market has still failed to take off, even though UK fund managers are heavily invested in stocks. Preconceptions that an active stock market is a prerequisite for a healthy options market seem to be wrong.

A year after the merger of London's futures and options exchanges, amid hopes that the union would revive trading in UK stock options, the best that can be said is that volume has stabilised.

Trading in individual stock options had been falling steadily since 1987, when retail investors were scared off by the stock market crash. But UK fund managers have not been willing converts, despite marketing efforts by the London International Financial Futures & Options Exchange (Liffe).

Liffe's difficulties are part of a broader trend: US-based exchanges – from a far stronger base – have suffered declining volume in stock option business, as retail investors deserted their markets.

But Germany's Deutsche Terminbörse (DTB), has bucked the trend. In 1992, the DTB traded 14m Dax option contracts and 10m individual stock options, compared with 3m FT-SE options and 4.5m individual equity options on Liffe.

There are a number of factors involved.

First of all, the smaller number of large German companies may actually have proved an advantage, rather than a disadvantage. Liffe lists 65 UK stock options, while the DTB lists only 15, concentrating on the relatively small group of blue-chip German companies.

Mr Roger Barton, head of product development, said that Liffe is considering reducing the number of options, but the problem is that liquidity tends to shift, so that an option on one stock may be very quiet for as much as a year, and then suddenly spring to life.

Many options specialists believe that the DTB's screen-based trading system is better suited to options that Liffe's open-outcry market, since it is easier to trade a variety of similar products – in this case, different series of options – on a screen.

Liffe's APT screen-trading system is being developed to handle options, but the board has yet to decide whether to go ahead with screen-based trading. The systems capability is expected to be ready by the end of the year.

Many options traders also argue that the rules governing the UK stock market are a severe handicap to dealing in stock options. The delay in reporting large equity trades gives the main equity marketmakers an unfair advantage, and forces options marketmakers to make prices on an uneven playing field, they argue.

Another advantage for the DTB is that there are tax benefits involved: foreign investors can avoid paying capital gains tax on German share dividends by using the options market.

But, given the potential revenues available, many analysts are surprised that more UK fund managers do not write call options. Writing, or selling, call options involves agreeing to sell an equity at a preset "strike" price: an extremely dangerous practice for investors who are not covered. But for fund managers, holding huge portfolios of shares, it is a relatively attractive method of earning money and boosting performance.

But even if more fund managers started to write options, there is still a lack of business on the other side of the equation, hence Liffe's desire to promote equity options among retail investors, who often buy options as a means of obtaining exposure to a stock for a limited outlay.

The other hope is that the development of a more active over-the-counter market in equity derivatives, which many banks are actively pursuing, would feed through into the exchange-traded market as banks seek to manage their exposure. But business in that area too, seems to have stalled.

Tracy Corrigan

WORLD STOCK MARKETS

CANADA

TORONTO

4 pm close February 19

INDICES

NEW YORK

DOW JONES

STANDARD AND POOR'S

NEW YORK ACTIVE STOCKS

TRADING ACTIVITY

CANADA TORONTO

TOKYO - Most Active Stocks

Friday, 19th February, 1993

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Meiji Seika	4.8m	674	+1	Nagase & Co	2.7m	605	-2
Sumitomo Mt Ind	4.8m	281	+32	Isuzu Motor	2.4m	364	+4
Npn Steel Corp	4.4m	298	+4	Toshiba Corp	2.3m	575	-20
NKK	3.2m	259	-10	Max	2.2m	1,900	-15
Isetan	3.0m	2,420	-2	Hitachi	2.1m	678	-2

JAPAN

CONFERENCES AND EXHIBITIONS

Monday February 22 1993

MOST industries have walked through fire and ice in the current recession, and the conferences and exhibitions business is no exception. But unlike others, there are plausible arguments to suggest that, while uncomfortable for those who have gone out of business, the recession has been a useful maturing process for the surviving organisers of conferences and exhibitions. It has thinned out those with limited ability to offer the full-blooded support increasingly demanded by corporate management, trade fairs and international associations.

Those that have survived – and many have – have been tempered by the experience. They have invested in crucial information technology and databases in advance of demand; they have pruned excessive staffing; they have adapted to client demands to organise a conference or exhibition with far less advance notice.

In general, the economic squeeze has sharpened up thinking in a sector which has – with justice sometimes – been criticised for flaccidity and a failure to match promises with achievements. After all, who has not been tempted into attending an event by its glossy pre-launch publicity, only to discover on the day that it was not worth the effort? If the recession has killed that off, it will have provided a service.

It is hard to estimate the current value of the international conference and exhibition business. Too many variables exist for definitive accuracy. The sector covers a broad range of functions – conferences, seminars, conventions, forums, symposiums, meetings – the list of types of function and possible venues is almost endless.

Nevertheless, industry estimates calculate the sector may be worth $40bn annually, with Britain taking around 10 per cent of that pie. About 8,000 major international conferences are staged annually around the world, of which 5,000 are in Europe.

The choice of venue is huge and growing, ranging from the internationally distinguished, such as the purpose-built Queen Elizabeth II Conference Centre in the political heart of London – where the 300-seat Mountbatten room, secure against electronic eavesdropping, with multi-lingual simultaneous interpretation, a splendid three-course lunch and plenty of refreshments, will set you back £5,300 (plus value added tax) a day – to any number of secluded country house hotels, ideal for the private small company annual general meeting.

Because the conferences and exhibitions industry crosses so many boundaries – hotels, leisure centres, large publicly quoted groups such as Blenheim to small organisers working from a spare bedroom – it is almost impossible to establish how many involved in the sector have gone under as a result of the recession. Certainly, the length of many conferences is now shorter, attendances are down and advance bookings happen later.

A bigger slice of the cake

The future looks promising for a sector that should grab more of the marketing budgets than in the past, writes Gary Mead

But the blows have largely been taken in the corporate sector; companies have chosen to spend less on customer-oriented conferences, more on internal, staff-aimed sales and training conferences. Conferences involving international associations have been less badly affected, since they are normally required by their own statutes to stage regular conferences.

The recession has not had a blanket, homogeneous effect; in the case of new product launches companies are, if anything, boosting their spending on conferences and exhibitions. Vauxhall, part of General Motors, will have spent well in excess of £1m on a five-stage event between February and June in the UK, launching a new model, the Corsa, via Spectrum Communications.

The future, nevertheless, looks promising for this sector, not just because the companies involved in it are themselves given to relentlessly self-promoting optimism, but because the nature of marketing communications is shifting, in ways which favour this sector grabbing a larger share of marketing budgets than in the past.

Vauxhall, for example, will achieve the following in its Corsa launch for a relatively small marketing spend: 18 simultaneous exclusive dinners for dealer principals and their partners; four regional launch venues for dealer principals, their staff, guests and local business users; a multitude of hands-on nationwide training sessions for sales managers and their staff; other launch events at points of sale; and a driving evaluation event at which dealers and guests can try out the new product range.

Naturally, Vauxhall will also spend heavily on conventional television and press advertising, but the most cost-effective marketing for its new product may well be the relatively hidden expenditure, closely targeted on salesforces and key business customers.

Perhaps the single most important trend within marketing at the moment is the shift away from broadcast to narrow cast means of reaching out to customers. Exhibitions and conferences, if properly organised and publicised, provide a relatively cheap and certain way of creating a relationship between seller and buyer.

Exhibitions doubled their share of marketing spend between 1981 and 1991, from 4.7 to 9.3 per cent, while television advertising stood still (from 26 to 26.2 per cent) and national newspapers' share shrunk (from 16.9 to 14.8 per cent). The exhibition sector's growth averaged 18.4 per cent a year over that decade.

Venues are doing much to provide not just crude value-for-money, but added extras to entice organisers.

Ms Gill Price, commercial director of the QEII conference centre, says: "One potential exhibitor was interested in knowing if it would be possible to organise an internal television relay of the forthcoming Wimbledon tennis men's singles' final this coming summer, so that those who would be setting up his exhibition at the centre would be able to watch the match as they worked. Being able to provide such extras is increasingly important if you want to get the business."

Hotel chains are now actively marketing themselves as conference venues as well as tourist destinations. Inter-Continental Hotels offers a "European Meetings Portfolio" guaranteeing a daily delegate rate fixed until March 31 1994 and a complimentary room for every 15 booked, across 40 European locations.

Conference centres are looking at how to make their venues more attractive. For instance, the NEC at Birmingham intends to erect an entertainment village the size of Wembley football pitch to go alongside Ipex '93, the September 7-15 trade show for the print and graphics industry. The village, set up by the exhibition company Button Eventures, part of Reed International, is based on an idea which has evolved at Cannes media festivals over the years.

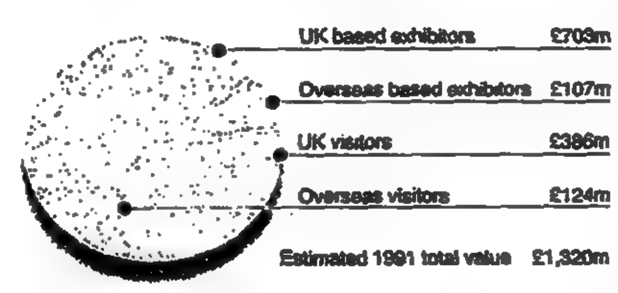
In a commercial world increasingly cluttered by marketing developments and daily more confused by technological developments in broadcast media and database manipulation, there is probably only one certainty: it will become more difficult to get the attention of customers. Given that, the conference and exhibition business has a head start against other sectors of marketing communications.

As the explosion in broadcast media continues, marketing professionals involved in narrow cast, close targeting exercises should be able to take advantage of a situation where finance directors have learnt to ask of marketing departments: "What am I getting for my expenditure?"

Certainly, for business-to-business marketing, it increasingly makes less sense to lavish fortunes on the high-cost, little obvious return involved in using broadcast media. If you want to speak to your customers, build a database and use that to make the customers whom you already have feel important. And from the profile of existing customers it is possible to identify and target likely others.

That is precisely what conferences and exhibitions can offer. And for organisers of conferences and exhibitions one trend stands out; the sheer number of available venues means that would-be organisers of events should be able, even when the recession lifts, to demand the very best in extra facilities, if not the very lowest in prices.

UK exhibition spending



Source: Exhibition Industry Federation

The exhibition as a cost effective medium

	"Which media have you used in the last two years?"	"Which is the most effective medium for quality sales leads?"	"Which is the best medium for new product launches?"	"Which is the best medium for your company image & PR purposes?"
Trade exhibitions	89%	24%	24%	24%
Trade press	85%	23%	33%	28%
Direct mail	74%	12%	8%	4%
Sales representatives	71%	14%	4%	8%
Directories	68%	2%		1%
Public relations	58%	5%	7%	11%
Conferences/seminars	44%	1%	3%	3%
Newspapers	42%	5%	7%	8%
Radio	12%		1%	1%
Television	7%	1%	2%	2%
Don't know		13%	11%	10%

Source: Exhibition Industry Federation. Interviews based on a sample of 1,308 companies in the second half of 1991

How a speech poisoned the atmosphere

By Michael Skapinker

ANYONE who has spoken at a conference remembers the disasters.

The one lodged in my memory is being hustled out of a hotel rear entrance to avoid being attacked by aggrieved supermarket managers.

Having discussed speech-making with Ms Cristina Stuart, managing director of Speakeasy, who teaches people how to address meetings, I think I know now why my mishap occurred. I was in too much of a hurry.

The supermarket managers' conference was an angry occasion even before I got there. It was a time when hardly a week went by without a food poisoning scare. Mrs Edwina Currie had just resigned from the UK government over her remarks about salmonella and eggs. The supermarket managers felt besieged and misunderstood. They had no doubt who was to blame for inflaming the situation: the press.

Supermarket managers had no doubt who was to blame: the press

Asked to speak about the press and food retailers, I arrived just a few minutes before my alloted starting time. Had I known how aggrieved the meeting already was, I might have started off by acknowledging that the supermarkets' job was a difficult one. I might have conceded that public expectations were, to some degree, unrealistic, driven by a desire for preservative-free food which lasts forever, before pointing out that press interest in the subject was good and proper in a democratic society.

Instead of which, I launched straight into a defence of newspapers' screaming-headline treatment of salmonella and other issues, pointing out that journalists had families just like everyone else and did not want to see them poisoned.

I looked out at rows of set, sullen faces, but it was too late to change tack. When I finally sat down, the nervous chairwoman asked for any questions, thanked me for coming before anyone had a chance to raise a hand, told the assembled throng that tea was waiting outside the conference hall, offered me none, and showed me the way out.

It is, says, Ms Stuart, a good idea to arrive at the conference venue early, stand up on the stage, look out at the empty seats and imagine them filled. The more you feel at ease, the more naturally you will speak. And she could have added, if you sit and listen to the speeches before your turn comes, you will have a chance to assess the nature and mood of your audience and have a better idea of how to get your message across.

At least the supermarket managers were sufficiently angry to pay attention. The problem with most conference speeches is that hardly anyone listens to them. This is not because the acoustics are poor but because most conference audiences spend their day in a semi-comatose state.

I have never entirely understood why this should be so. Some conference speakers are dull, but even the mildly interesting ones manage to lose their audiences after the first few sentences.

Mr Lee Bowman, chairman of the Kingstree Group, which also teaches people how to speak in public, says the reason conference audiences fall asleep is that nothing is expected of them.

In everyday conversation, the person doing the speaking does not set the pace; it is the person being addressed who determines how quickly the speaker talks, when he or she pauses, speeds up, slows down, goes back to explain and so on. If we are talking to someone, they tell us by nodding that they have understood, by looking puzzled that they have not, by appearing bored that we should get a move on.

The larger the group, the more diffuse these signals. And at most conferences the speaker has no idea at all what the audience thinks because the lights are dimmed. The darkness is a signal to the audience that no-one is going to disturb their peace. They are not going to be asked to participate. If they thought they were, their interest would be unflagging.

Anyone who has been to a live performance by Dame Edna Everage, the cross-dressing Australian raconteur, recalls the fear of having questions directed at them and the *schadenfreude* when she picks on someone else.

When the lights are dimmed, the audience can go to sleep

Ms Stuart tries to involve her audiences whenever she can. For the novice speaker, there is the danger of losing one's thread and not being able to find it again. But an audience asked to contribute seldom sleeps.

The other soporific factor at conferences is the slide show. No conference speaker arrives these days without a large selection of slides. The first one might show the speaker's company logo. Subsequent ones might show an entire bal-

Continued on Page 3

Christopher Price considers whether exhibitors get good value from their shows

It's time to be more selective

HOW effective are exhibitions? The latest industry statistics suggest that as the recession has bitten, companies on both sides of the exhibit stand are becoming more selective.

A recent survey by the Incorporated Society of British Advertisers (ISBA) found that the amount spent by British companies on trade, technical and consumer exhibitions declined from £549m to £539m in 1992, the first fall in the 20 years the survey has been conducted.

Examples of the contraction include the oil services industry which has seen the number of exhibitions directed at the sector fall from five to three in the same period. The machine tool business has seen around a third less exhibitions, according to one industry executive, while the ISBA survey suggests expenditure on agricultural shows showed a slide of 32 per cent last year.

However, the cutbacks are largely welcomed by exhibition industry watchers. "In the past, British exhibition organisers have not been particularly forthcoming with detailed information about their event," says Mr Reg Best, a director of ISBA. "The result has been disappointment among both exhibitors and delegates and ultimately in sales. Now it is the well-organised and rewarding exhibitions that are surviving and prospering."

Despite the downturn, companies still rate exhibitions as value for money. The ISBA survey found that 82 per cent of its members considered it as a cost-effective promotional medium. This echoes a similar survey by the Exhibition Marketing Group the previous year. This found exhibitions came second only to the trade press when considering a new product launch, with 24 per cent of those surveyed against 38 per cent preferring it, ahead of direct mail (8 per cent), and newspapers and public relations (7 per cent each).

But as the most effective medium for quality sales leads, trade exhibitions came first – with 24 per cent – followed by the trade press (23 per cent), sales reps (14 per cent) and direct mail (12 per cent). And as the best medium for corporate image and public relations purposes, exhibitions trailed the trade press by 24 per cent to 28 per cent.

"It is the well-organised exhibitions that are prospering"

Mr Alan Bowers, finance director of Fairline Boats, the listed boat builder, is positive about the value of exhibitions. He says that in an industry where it is difficult to compare homogeneous high-value products, the exhibition situation is a good medium. "A high proportion of our turnover is geared to our exhibitions, with the London Boat Show still the main draw," he says. In addition, there are several other shows in the out-of-season period. He estimates that around one-third of the group's marketing budget is invested in exhibitions.

While the audience for industries like boat-building can be fairly easily identified, other sectors are not so easily served. New technology industries are rightly recognised by exhibition organisers as growth areas but unfortunately these industries are prone to fail to target their potential buyers.

Mr Derek Brown, managing director of Target Automation, an electronics services group, says: "We have literally dozens of potential exhibitions that would possibly be the right ones for our products, as well as several relevant trade magazines – but only a limited promotional budget." A former regular exhibitor at around a dozen UK events and two overseas, he now uses just five and has opted to use more direct mail. "I now know the exhibitions I need to use," he says.

Target's dilemma is echoed by Mr Peter Reed, marketing manager of Forster Engineering, a Yorkshire-based precision tools maker. "We have grown more selective in our choice of media, and now look very carefully at the exhibitions we go to," he says. "The right ones can generate very healthy sales."

But how do companies recognise "the right ones"?

The ISBA says there are hopeful signs. Organisers are providing more detailed information, particularly when pushed, although more still needs to be done. Organisers are reluctant to be too specific over the scope of an exhibition which might restrict attendance.

Before attending an exhibition, the association recommends the following procedure:
1. Make sure that the exhibition is independently audited. This will ensure that the information on the previous year's event should be accurate and relevant.
2. Insist on an exhibitor and attendance profile.
3. Make sure the timing and the venue meet requirements.
4. If exhibiting, ensure all staff are properly trained. One of the most common complaints concerns undertrained sales staff.

Another industry development over the past two years is that exhibitions no longer go on for so long. The Exhibition Industry Federation estimates that the average length of events has declined from 3.7 to 3.4 days. Exhibitors are also hiring less stand space, so that they are not spending as much. Average expenditure per exhibitor has fallen 15 per cent in real terms over the past two years.

Perhaps in line with the economic situation, the more selective approach to events is likely to accelerate before it levels off. Up to 1989, the ISBA survey reported that all companies expected to increase their annual exhibition expenditure. However, last year nearly 20 per cent expected to reduce their outlay.

This year a further 10 per cent say they plan cuts. Nearly 80 per cent expect their budgets to remain the same, an increase of 10 per cent on the previous year.

Sailing boats at the London Boat Show in Earls Court — Ashley Ashwood

Kate Bevan looks at the role of the organiser

Making the most of a stand

MANUFACTURERS always face a challenge in selling their products, and in a recession the challenge becomes even harder. One popular marketing method is to exhibit at trade fairs and public showcases – but exhibiting is only half the battle.

"At a trade fair every single one of those visitors is there for a purpose – because it is his, or her, line of business. The visitor is already demonstrating an interest by being at the exhibition," says a leading exhibitions organiser.

But there is more to exhibiting than watching visitors collect leaflets and the business of turning visitors into sales contacts is itself big business.

There is a lively market in offering back-up services to exhibitors, from advice on how to present a stand to following up contacts after the show is over and helping them to achieve maximum publicity. The biggest of these service providers is Blenheim which, in spite of the recession, saw pre-tax profits rise 31.8 per cent to £37.3m in the 12 months to the end of August 1992.

Blenheim organises exhibitions in the UK, US, France, Germany, Sweden, Switzerland, Spain, Italy, the Netherlands and south-east Asia; the sectors it covers range from clothing and textiles to information technology.

Organisers say their business has been resilient – exhibitions accounted for an estimated 9.3 per cent of UK media spend in 1991, up from 4.7 per cent in 1981 according to the Exhibition Marketing Group, and some trade press publications complain that the industry is draining their advertising revenue.

"In a recession, exhibitions are one of the most cost-effective ways of reaching customers," says one organiser.

The challenge for an exhibitor is turning visitors into customers. Organisers say that making the visitor feel special is important – they suggest that exhibitors give important potential customers VIP status. At Confex, the exhibition industry's annual showcase, some visitors are given VIP passes to the exhibition which entitles them to use a special business lounge with refreshments.

"Exhibitions are value for money," stresses Blenheim. "It's the only medium where you can have three-dimensional advertising – where clients can not only see, but touch and feel the product."

The appearance of the stand is also important, say organisers. "It's no good taking a huge stand if you've only got a few samples of a small product to display," Blenheim adds. It offers exhibitors at its shows the choice of either taking the space only or of making use of its team of contractors and designers to make the best of their stand.

To get the most out of the space, organisers suggest running raffles and competitions on the stand, as well as giving away free samples of the product and demonstrations.

Blenheim produces an exhibitors' guide with advice on everything from where to get plants to how to arrange plumbing and lights. It runs an exhibitors' day for most shows before the event itself, which are mostly workshop-type sessions on the basics of exhibiting. For Confex, this includes sessions on setting objectives for the show, building image, focusing on stand design, choice and construction, and the importance of forward planning.

But not only the design and products are important. The professionalism of the people staffing the stand can have a big impact on visitors. Blenheim's guidance to exhibitors emphasises that eating and drinking on the stand should be avoided, as should smoking and chatting with friends. Instead, it recommends, set a goal of a certain number of sales contacts every hour; keep an eye on the competition and make sure anything that requires attention is dealt with immediately.

Organisers also stress the obvious: one should approach potential customers with a friendly smile. "To this end, it's often better to have marketing people on a stand rather than sales people as you might expect," says Blenheim.

As well as potential customers, exhibitors will also be dealing with the press, an important source of extra publicity. Blenheim produces a guide for exhibitors on looking after the press, ranging from tips on how to write a press release – alerting publications to news which may end up as editorial in a publication and thus attract more visitors – to briefing someone on the stand to deal specifically with press inquiries. A press office is also provided at the venue, the first stop for journalists covering the show.

The media is also important before the show, organisers stress. Blenheim says: "It's important to come to us as soon as possible when you decide to take a stand. Then you can tie in with things like production schedules for magazines so as to get maximum publicity."

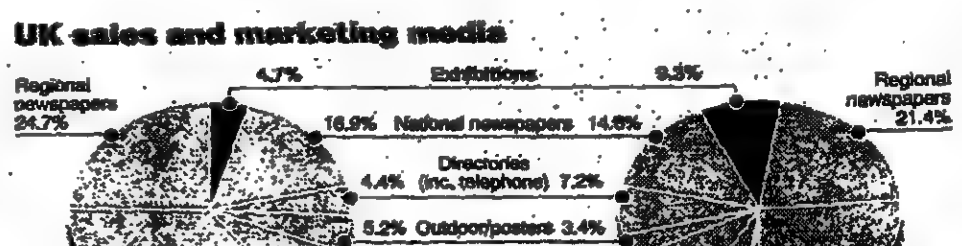
To help exhibitors, Blenheim also holds a series of one-day seminars on getting the most out of exhibitions. Such a day includes sessions on promotion and publicity, aimed at helping exhibitors getting the maximum exposure for their companies; as well as sessions on making the most of the exhibition, including pre-show planning and tips for successful exhibiting. It also may include sessions on capitalising on the event and following up contacts made.

When the show is over, it is not just a case of packing up and going home – organisers can also help with post-show management.

And the next event should always be on the exhibitor's mind. Blenheim runs a database of 6m names worldwide, helping to maintain contacts with clients and following up sales leads. "At some exhibitions we give each stand a light-pen, and visitors wear bar-coded badges so that when the pen reads the code, the name and details go straight onto the database."

After the show the organiser can put together an analysis of the event, detailing what attracted visitors to it – for example whether they attended because they saw an advertisement or from free tickets – helping to plan advertising for the next show.

UK sales and marketing media



Source: Exhibition Industry Federation

A VISITOR'S GUIDE TO EXHIBITIONS

Marketing in the aisles

HOW DOES an avid visitor select which exhibition to attend and which to avoid? To make sure of not being disappointed, spend a little time carrying out adequate pre-planning and research to ascertain precisely what an exhibition or conference offers; do not simply spin a globe in the search for exotic locations, and beware of hyperbole.

According to Ms Vanessa Cotton, a partner in the Event Organisation Company, one of the ways of telling whether an exhibition will be worth visiting is good quality advance literature, "with clear information and some real hard facts, about who is attending and so forth. If the advance brochure is full of pure hype, then I would say: beware. Also, look for support from other organisations. A good exhibition is a bit like a magnet: if it's going to deliver lots of stands, then it will generally attract support from trade associations and journals."

It is equally important to assess in advance what other events are going on around the exhibition as an indication of what extra benefits can be gained. For instance: is there a seminar programme? Are there any technical clinics? Are there opportunities to pre-book special meetings with exhibitors? The last is a trend which is growing in US-located exhibitions.

Ms Cotton believes that the location of a venue is not the best guide to the quality of the exhibition: "You can have a good exhibition in an inferior venue and some of the most fantastic venues have in the past hosted terrible shows. Much depends on the quality of the organiser and the organiser's long-term commitment to the exhibition."

Ms Diana Ambrose, vice-president of the International Association of Professional Congress Organisers (Iapco), agrees that there are no easily fixed rules about the best choice of venue, either for conference and exhibition organisers or visitors: "People call and ask how best to arrange a venue, to which the best response is in turn to ask them 'how do you choose your holiday?' You look at where you want to go, how much you have to spend and what facilities you want when you get there."

An exhibition can give both buyers and sellers one vital ingredient which broadcast advertising generally fails to achieve – personal contact

Exhibitions, perhaps even more than conferences, provide a relatively cheap and easy means of keeping a watchful eye on new developments, as well as a chance informally to bump into competitors and customers. Their importance as a marketing tool is likely to grow, as advertisers become increasingly wary of spending vast sums for no easily measured return from conventional advertising, be it in television or press.

But the industry consensus is that there is no handy guide as to which exhibitions to attend and which to avoid. There are criteria which visitors would be wise to consider before attending any exhibition, which can be summarised as the balance between the intangible gains – such as networking with competitors, customers and suppliers – and the practical costs of spending time away from production.

"It's at least a day out of your life, maybe more, and you may just end up walking up and down aisles looking at inferior exhibits; nobody has really thought building in any more opportunities for you to do business. When a show gives you a catalogue in advance of who is going to be exhibiting, that signals it will probably be a good show," says Ms Cotton.

Ms Ambrose believes that it is also vital for those considering staging an exhibition or conference to plan the objectives carefully. "You need to know, as an organiser, where are people coming from, how easy is it for them to get to the venue and how many meeting rooms you want. There isn't really a top ten list of best venues because it depends so much on what the event is.

"People at a top management meeting may want to cloister themselves in a luxury five-star country hotel where no-one can get to them; they have a different set of venue criteria from an international association meeting for 5,000 people."

Mr Paul Swan, managing director of Spectrum Communications, suggests that an event venue is often a combination of the pragmatic and the appealing: "International associations tend to choose those venues that have some kind of associated tourist appeal, and those cities which tend to be great tourism cities also tend to be great conference cities.

"A combination of both is essential; it is vital to have the infrastructure to support the show – you need flights from all over the world, a good range of hotel accommodation, adequate transport around the venue itself – but you also need lots of fun things for visitors to do after the event is over for the day."

Whatever the pros and cons of trudging round an exhibition, there are a number of factors which suggest that the visitor will have an increasingly wide range of choice. Primarily, the changing nature of marketing communications – a continuing explosion of television, radio and other broadcast media – plus a reluctance of companies and associations to return to the pre-recession days of high spending on conventional advertising, means that all forms of narrow-cast marketing (such as exhibitions) have become more attractive.

Traders who put marketing cash into exhibitions can build a database of visitors who, by definition, have already shown an interest in their products and services by simply turning up to see what is on offer.

For advertisers, the media world is becoming ever more complex; in 1978 90 per cent of all US television viewing was on the three major networks; now NBC, CBS and ABC combined have about 60 per cent. What advertising, if any, is the missing 30 per cent now watching?

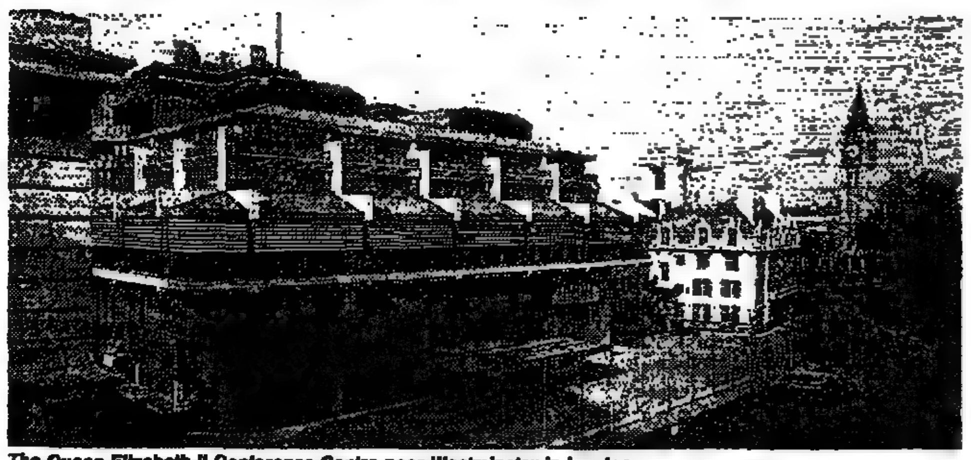
The same pattern is occurring with magazines. In the UK there were almost 4,000 consumer and business magazines in 1980; a decade later the figure was closer to 7,000.

An exhibition can give both buyers and sellers one vital ingredient which broadcast advertising generally fails to achieve – personal contact. Competition will get fiercer, in all aspects of business. If anything, exhibitions are likely to become even more attractive, with more little extras to tempt the visitor than ever before.

Gary Mead

Gary Mead tries to find the secrets of a good conference

Starting point for success



The Queen Elizabeth II Conference Centre near Westminster in London

THERE IS no ready-reckoner to indicate how best to fix any of the many variables concerning a conference. How much to spend: how long it should last: what the venue should be; how best to publicise it – all are crucial factors in determining whether or not it will be successful, but any conference organiser requires from a client one basic starting point.

Setting carefully defined objectives and aims to be achieved by the conference or exhibition is an absolute prerequisite for a successful event. According to Mr Paul Swan, managing director of event organiser Spectrum Communications, "there is now almost no capital city that does not have what it terms a convention centre and many secondary capitals such as Birmingham, Edinburgh or Glasgow, all either have or plan to have good conference centres."

The wide choice of international venues, with at least 10 conference centres with excellent infrastructural support in the former west Germany alone, means that event organisers can be spoilt for choice – and have the opportunity for fine-tuned negotiation over not just price but other services too.

Moreover, the line between conferences and exhibitions is blurring: it is increasingly rare to find a conference without some sort of exhibition, and many exhibitions are now offering associated seminars. That development has resulted partly from the fact that the sector has suffered from the recession.

"Absolutely loads" of companies in the industry have gone under, according to Mr Swan. "What has happened is that an awful lot of the smaller organisations have gone and there is a move towards the more secure suppliers, and they are all quite busy," he adds. The more casual spending, especially at the euphemistically titled "incentive" end of the market, has stopped, as testified by empty hotels everywhere.

"It is also tougher to win clients," says Mr Swan, "because there are people who go purely on price, since their own company is in survival mode."

The event organisers that are surviving have had to learn some essential business lessons These include: building solid relationships with their clients; how to understand their clients' strategic needs; taking a long-term view to maintain quality of service; and being able to compete not just on price but also on giving value in many different ways.

Spectrum and similar companies are investing in efforts to measure the success of what they do, by pre and post-event measurements of retention of the message of events.

Ms Diana Ambrose, managing director of Conference Associates and Services, and vice-president of the International Association of Professional Congress Organisers (Iapco), says that when it comes to selecting a conference or exhibition organiser it is vital to "see how long they have been in business. Study their track record. Look at the type of events they have organised, speak to some of their previous clients, even look at their office structure, how it operates. There are a lot of companies that appear and disappear. Many conferences are now being planned for two years' time and it is vital to make sure that the organiser has the financial means to survive."

Choosing a venue requires careful planning. If international, then it must be a location well-served by airlines and with adequate accommodation. If people are paying to attend rather than being required to do so by their company, then a line-up of attractive speakers is important.

Making sure that no-one speaks for 20 minutes is a basic rule of thumb, since, as Ms Ambrose puts it, "no-one says anything more in 60 minutes than they can adequately do in half that time." Mr Swan says that it is important to get from the client what the purpose of the event is: "Is this meant to be fun? Is it meant to have very cerebral overtones, in which case we could go to Oxford or Cambridge?

"Some time ago one of our clients had booked one of our favourite venues, the NEC in Birmingham. Then they told us what the show was meant to achieve and we took them instead to Paris. We are big fans of the NEC but what our clients were trying to do in overall terms of ambience and feel was best served by Paris, even before we found the individual hotel.

"First impressions at an event are crucial: by stepping into a luxury hotel in Paris you create a certain feeling. For other types of events, the NEC might be much better. It's a bit like three-dimensional noughts and crosses: you've have got a lot of variables which need to be considered."

Ms Vanessa Cotton of the Event Organisation Company, confirms that those event-organising companies which are marketing-led have not only survived the recession but actually done rather well through it. "Corporate clients are now looking for very visible value for money. A meeting which generates a few hundred leads in the form of real people as part of an overall communications campaign has got value stamped all over it, compared to meetings which are just held because they always have been or those where no-one has really thought about why they are doing it. People now have to examine – and are examining – why they hold an event."

It is therefore impossible to define a good conference in any single way. For delegates, it must mean a satisfying experience without hassles over poor accommodation, food, transport and service.

For those who have spent their money on holding the conference, it must lead to new custom (if the host is a company) or a certainty that any future conferences will maintain or increase attendance (if the host is a trade or other association).

As with any other marketing tool, the only reason for using it is if the response is positive. Two organisations which are able to give advice on organising conferences are:

■The Association of British Professional Conference Organisers (ABPCO); Tony Waters (secretary), c/o 54 Church Street, Tisbury, Salisbury, Wiltshire SP3 6NH.

■International Association of Professional Conference Organisers (IAPCO); Ghislaine de Coninck (executive secretary), Rue Washington 40, B-1050, Brussels.

Venues: the choice is becoming more varied, says **Bethan Hutton**

A world of locations

THERE was a time when conferences were considered an easy source of income by hoteliers and others who found themselves with large halls or bedrooms that would otherwise stand empty. Unwary conference bookers were faced with unreliable service, awkwardly shaped conference rooms and ever-rising charges.

Now, however, conference planners find an industry with high standards and enormous capacity to fill during a recession. Customers can assume venues will be amenable to tough negotiations on price, without withdrawing the extras – high tech audiovisual equipment, notepads and soft drinks at each delegate's place, hairdriers and chocolates in every room – which have come to be expected.

The recession has made many European clients anxious to avoid the appearance of extravagance, according to Ms Sally Greenhill, of conference production specialists Spectrum Communications. Conferences have become shorter, numbers smaller and locations less lavish, though high standards are still expected for meeting rooms, equipment and service, she says.

Maturing markets also mean that demand for large conferences is levelling off or declining in most of Europe and the US, but the small meetings sector of the industry, encompassing training, internal management meetings and small conferences, continues to expand.

On the other side of the world, there is still considerable room for growth in the Asia-Pacific region's conference market. There is already a wide choice of large venues in the region, with another ambitious conference centre due to open in Singapore next year, but there is space for more hotel development in some of the newly industrialised countries.

Cultural differences mean the Asian market is developing in slightly different ways to the more established American and European markets, says Mr Geoffrey Breeze, vice-president for corporate marketing of Hilton International, part of Ladbroke. For example, Japanese companies tend to hold small meetings and training programmes in-house, so clients for Hilton's smaller meeting rooms in Japanese locations are mostly international rather than domestic companies, a reverse of the usual pattern.

The Australian conference *industry, with ties to both* western and eastern markets, has seen rapid growth recently. In Sydney, 32 four- and five-star hotels have opened since the Sydney Convention and Exhibition Centre on Darling Harbour began operations in 1989. But the fast rate at which new accommodation and meeting space *has come on line, combined* with an economic slowdown, has left the new hotels competing harder for business, particularly at the international end of the market.

However, Ms Lani Sullivan, sales director of Novotel's Sydney branch, says the Australian meetings industry has benefited from a government initiative which requires companies to spend 1 per cent of profits on training. Demand for small meeting rooms has soared.

The growing sophistication of British conference planners and intense competition among meeting-space providers has led some operators to develop niche markets, while others have reacted by broadening their range.

The De Vere hotel chain, which runs 26 four- and five-star conference hotels, has been forced to keep prices down, but by branching out into golf and other leisure pursuits it has raised the average *spend by conference delegates*, compensating for slimmer profits on core activities.

Ms Janice Eagleson, group sales and marketing manager at De Vere, says that as another recession-surviving measure, the group decided against *taking short* cuts on quality, and risking the loss of long-standing customers. Instead, it aimed to increase volume. This has meant pointing out competitive rates for small meetings to clients who might normally use the chain only for their biggest events, and cross-marketing leisure breaks to conference guests, *and conferences to single business* travellers. Hotels no longer insist on separating different categories of guest.

One company adopting the opposite approach is Hayley Enterprises, a subsidiary of A1 Exports, the car parts group. Hayley already owned one hotel, but saw a gap in the market for a small, business-oriented conference venue, free from the distractions of holidaymakers and children. Sedgbrook Hall, in 13 acres of grounds near Northampton, was the result. It opened a year ago, after £5m had been invested in converting the Victorian country house into meeting rooms, and building a new wing containing 60 four-star standard bedrooms, and hotel-type catering facilities.

Sedgbrook Hall's client list is drawn from the top 100 companies, according to Mr Norman Bellone, its general manager, and the core business is training and management meetings. In its first year the centre had a turnover of £1.5m. "People have got to communicate with each other, regardless of the fact that there is a recession on. In fact, they have to communicate with each other more," says Mr Bellone.

He attributes Sedgbrook Hall's success to its provision of a businesslike environment which facilitates communication and learning. For example, a common request from companies booking rooms for training purposes is for plentiful natural light. Specialist management centres frequently score better on this point than hotels, which have often been designed with evening social functions in mind.

British universities have been used for conferences for decades, but not by most corporate conference organisers. However, Mrs Carole Formon, general secretary of the British Universities Accommodation Consortium, says that the recession has made companies take another look. "If you hadn't been to a university for 10 years, and you went back now, you would see a tremendous difference," she says. The 63 universities and colleges represented by the consortium, ranging from former polytechnics to 500-year-old Oxbridge colleges, have all made investments in upgrading facilities in recent years.

Universities still cannot compete with purpose-built conference centres and luxury hotels when it comes to upmarket conferences for a few hundred people, but they do well at two opposite ends of the market: high attendance, low budget conferences, and smaller training and management seminar type events.

What other kind of venue could provide meeting rooms, accommodation and catering facilities for several thousand people within walking distance, at an all-in 24 hour rate of £32? Students, as well as conference delegates, are now *accustomed to greater creature* comforts, and many universities are improving standards of student accommodation.

More universities are moving upmarket by opening year-round management centres for meetings of up to 200 people. Whether purpose-built or converted from country houses, the centres are usually fitted out to at least three-star standard, with sophisticated audiovisual equipment. Unlike most university conference facilities, availability is not limited by the academic timetable. There are at least 30 such centres, with more due to open this year.

Jaded conference planners, to whom all conference hotels are beginning to look alike, might be tempted by a novel meeting package put together by Stena Sealink, the ferry operator. It offers a one-day conference on board a ferry plying the Harwich-Hook of Holland line. Guests go on board in the morning, and by the time the ship sets sail at 11.30am, the conference can be under way in the purpose-built auditorium seating up to 230.

Before disembarking next morning, delegates have the added attraction of stocking up in the ship's duty-free shop. *Rates start at £74 per person* for three meals, one night's use of an outside cabin, and conference room hire.

Appeal of destination

Destination	Average score	Destination	Average score
Paris	8.0	Los Angeles	6.4
Hawaii	7.8	Lisbon	6.4
Hong Kong	7.5	Budapest	6.3
Singapore	7.5	Brussels	6.3
New York	7.5	Edinburgh	6.2
Geneva	7.4	Copenhagen	6.1
London	7.4	Milan	5.9
Cannes	7.3	Stockholm	5.9
Monaco	7.3	Istanbul	5.8
Rome	7.1	Cyprus	5.8
Florence	7.1	Munich	5.8
Nice	7.1	Frankfurt	5.7
Vienna	7.0	Athens	5.6
Amsterdam	6.9	Dublin	5.6
Bangkok	6.8	Luxembourg	5.3
Barcelona	6.7	Marbella	5.3
Berlin	6.7	Helsinki	5.2
Madrid	6.4	Cairo	4.9
Miami	6.4	Dubai	4.3
Zurich	6.4	Glasgow	4.2

*Ratings obtained from European meeting planners
Source: Official Meeting Facilities Guide (Reed International)

Hotel satisfaction*

Group	Average score	Group	Average score
Ciga	7.9†	Pullman/Sofitel	6.8
Inter-Continental	7.8	Scandic	6.7
Hyatt	7.5	Ramada	6.6
ITT Sheraton	7.4	Holiday Inn	6.5
SAS	7.4	Concorde	6.5†
Meridien	7.3	Forte	6.4
Marriott	7.3	Penta	6.4
Hilton International	7.2	Sol/Melia	6.3†
Maritim	6.8†	Jolly Hotels	5.8†

*Ratings obtained from European meeting planners †Fewer than 45 responses
Source: Official Meeting Facilities Guide (Reed International)

Speeches and visual aids

Continued from Page 1

ance sheet or a statement encapsulating the company's strategy: Target the Ketchup-Flavoured Yoghurt-Eating Sector.

Slides seldom leave any impression. The only mildly entertaining feature of a conference slide show is when one appears upside-down.

The problem with "visual aids" is that while watching them the audience is not listening to the speaker. You cannot look and listen at the same time. Ms Stuart likens it to trying to read the newspaper while listening to the radio. Neither makes much impression.

The experts advise *selective* use of visual aids. For most of the speech, the screen should be blank. When something does appear on the screen, the speaker should pause, allowing the audience to take in the image. The slide itself should be memorable; a cartoon makes a bigger impression than a set of figures, or a screen filled with words.

The most important barrier to audience attention is that the speaker's personality does not come through. Most speakers are too nervous. They speak too *quickly*. Many have written out every word of their speech, which they then proceed to read.

There is a vast difference, however, between the written and spoken word. Most written speeches sound *tedious* when read aloud.

Mr Bowman says speakers should try to treat their speeches as enlarged conversations. If you have a prepared text, depart from it, adding personal asides and reminiscences. Your audience will appreciate it, even if the note-taking journalists do not.

CONFERENCES & EXHIBITIONS

1993
The Henley Centre Programme
Our programme of one-day and half-day conferences will include specific events presenting our forecasts for: the UK economy; the changing European consumer; lifestyles; technology; regional & local prosperity; and changes in media consumption.
Contact. Anna Disley.
Tel: 071 353 9961.
LONDON

FEBRUARY 26
The Japanese Economy At A Crossroads? Prospects To 1995 & Global Implications.
A half-day briefing convened by The Royal Institute of International Affairs and The European Institute of Japanese Studies at The Stockholm School of Economics. To be held at Chatham House, London.
Enquiries: RIIA Conferences.
Tel: 071 957 5700. Fax: 071 957 5710.
LONDON

MARCH 1
Quality Performance
CBI/PERA International conference will provide practical advice, tools and techniques to enable swift and effective implementation of TQM methods. Speakers from Dowty, Pitney Bowes, IBM, Texas Homecare etc.
Contact: Karen Acton, CBI Conferences.
Tel: 071 379 7400. Fax: 071 497 3646.
LONDON

MARCH 2
1993 Financial Accounting Conference
As financial accounting gets more complex, management is dealing with issues like the global business environment and single European market. This conference will discuss these issues, new legislative requirements and present accounting applications from leading open systems suppliers.
Contact: Clare Waldron.
Tel: 0734 496400. Fax: 0734 496417.
LONDON

MARCH 2 & 3
Transport In Europe – Creating The Infrastructure For The Future
The conference will examine a broad range of policy issues for liberalising and harmonising transport in Europe, financing infrastructure improvements and the development of pan-European integrated transport systems.
Enquiries: Financial Times.
Tel: 071 814 9770. Fax: 071 873 3975/3969.
LONDON

MARCH 3
Buying And Selling Private Companies
Designed to remove some of the dangers from this potential minefield, the Institute of Directors conferences will include: planning successful sales/acquisitions; finding attractive buyers/sellers; investigating target companies; valuing the business.
Enquiries: Director Conferences.
Tel: 071 730 0022.
LONDON

MARCH 3
Derivatives
Organised by European Business Seminars to examine the latest market trends, developments and opportunities and the implications of tax and regulatory issues. Chaired by Morgan Stanley International. Speakers from Swiss Bank, Salomon Brothers, Bankers Trust Company, Arthur Andersen, Clifford Chance, Linklaters & Paines.
Contact: EBS. Tel: 071 823 9001.
LONDON

MARCH 3
Negotiating In Italy: How To Avoid Being Bound Before You Sign The Contract
Evening seminar on transacting M&A, joint ventures, etc. in Italy. Co-sponsored by Ashurst Brown Colombotti and the British Italian Law Association. Free admission.
Contact: Ony Facey/Joanna Andrzejewska.
Tel: 071 930 2366.
LONDON

MARCH 4
£52.8 Billion Worth Of EC Funding Opportunities 1993 EC Budget
With speakers from the European Commission responsible for the dispersal of the £52.8 billion worth of funding, this London Chamber seminar will focus on those budget lines providing more easily accessible business opportunities and how to become involved in contracts & tenders.
Contact. LCCI, Ms Maung.
Tel: 071 248 4444.
LONDON

MARCH 4
Polish Business Day
CBI DTI conference designed to provide companies with practical information on specific trading or investment opportunities. Programme includes address by Polish Prime Minister and senior Ministers followed by series of specialist workshops.
Contact. Nicki Cann, CBI Conferences.
Tel: 071 379 7400. Fax: 071 497 3646.
LONDON

MARCH 4
Tomorrow's Systems, Today's Choices
This one day conference shows how IT departments can successfully manage technological change to meet current and likely business needs. The conference identifies key trends and developments which organisations must consider and explores how this critical planning process can be best managed.
Contact. Business Intelligence.
Tel: 081 544 1830. Fax: 081 544 9020.
LONDON

MARCH 4 – JUNE 3
Contemporary Europe
LSE. A series of 12 evening seminars on Contemporary Europe. The seminars are suitable for Diplomats, Civil Servants, Business Executives, Journalists and others who wish to improve their understanding of current developments in the European Community. Fee £475.
Contact. Short Courses Office (Rosalind Tucker).
Tel. 071 955 7227. Fax: 071 955 7676.
LONDON

MARCH 8
Managing Pay Through Recession And Beyond
CBI conference will consider the current UK pay environment, the practicalities of pay freezes, new routes to higher productivity, unit labour cost competitiveness etc.
Contact: Karen Acton, CBI Conferences.
Tel: 071 379 7400. Fax: 071 497 3646.
LONDON

MARCH 8 & 9
World Pharmaceuticals
The conference will consider the challenges facing pharmaceutical manufacturers in a changing economic climate, how the industry is responding to the need to balance ethics with business interests and to win both political and public confidence.
Enquiries: Financial Times.
Tel: 071-814 9770.
Fax: 071-873 3975/3969.
LONDON

MARCH 9
Asset Securitisation
Organised by European Business Seminars to address the challenges and opportunities, plus the latest market and regulatory developments. Speakers from Mayer, Brown & Platt, Bankers Trust Company, Chemical Investment Bank, Merrill Lynch, Coopers & Lybrand, Clifford Chance, Arthur Andersen, Gracebury Securitisation.
Contact: EBS. Tel: 071 823 9001.
LONDON

MARCH 9 & 10
Profiting From Total Quality
The Intercontinental Hotel, London. How quality companies maintain market leadership and meet the ever-increasing customer demands of the 1990s. Keynote speakers: Sir Bryan Nicholson and Professor John Hackett. A Conference Board Europe meeting.
Contact: Jane Campbell in Brussels.
Tel: 32.2/640.62.40. Fax: 32.2/640.67.35.
LONDON

MARCH 9–11
Managing Integration Of Design To Manufacture
Successful companies highlight how to improve business performance and profitability. Key themes are the management and integration of information during new product introduction. Separate focus each day.
Contact: Rod Wardle, Computer Graphics Suppliers' Association.
Tel: 0905 613236. Fax: 0905 29138.
NEC BIRMINGHAM

MARCH 10-11
Know Your Competitors: Competitor Intelligence & Analysis Inc. Benchmarking
A practical two day seminar/workshop from the UK's No 1 specialists. Practical case exercises, successful case studies. Guest speaker who is head of a major company's intelligence unit.
Contact: Patricia Donnard, EMP Intelligence Service.
Tel: 071 487 5665. Fax: 071 935 1640.
LONDON

MARCH 11
Constructive Cost Control Strategies
Organised by European Business Seminars to identify how to formulate, implement and manage an effective cost control process, without damaging your business for the future. Chaired by Stoy Hayward. Speakers from Coopers & Lybrand, McKenna & Co, National Westminster Bank, Cedar International.
Contact: EBS. Tel: 071 823 9001.
LONDON

MARCH 11
How To Comply With The Package Travel, Package Holidays And Package Tour Regulations 1992
The most comprehensive legal requirements ever to affect tour operators, travel agents, corporate hospitality departments, hotels, coach companies, clubs, conference organisers.
Contact: Linda McKay, IBC.
Tel: 071 637 4383. Fax: 071 631 3214.
LONDON

MARCH 11
Logistics For Corporate Profitability
The Intercontinental Hotel, London. Successful companies explain how cost-effective production and distribution in the Single Market and beyond give them a competitive advantage. Keynote speaker: Jack Edwards, President, Itel Corporation. A Conference Board Europe meeting.
Contact: Jane Campbell in Brussels.
Tel: 32.2/640.62.40. Fax: 32.2/640.67.35.
LONDON

MARCH 11–12
Cost Effective Human Resource Management
Four 1/2 day seminars to improve value for money, quality, corporate impact, selling skills of the Personnel/HR function. For Chief Executives, and Senior Personnel professionals. The APAC benchmarking approach used by 200 organisations in 15 sectors of the economy is explained. £90 (1/2 day) £160 (full day).
Contact: Margaret McCaskie.
Tel: 071 242 3665. Fax: 071 242 3885.
LONDON

MARCH 15
EIS And External Information
This one day conference explores the process of collecting, analysing and sharing external business information. How EIS and related systems can improve the quality, scope and relevance of this information.
Contact: Business Intelligence.
Tel: 081 544 1830. Fax: 081 544 9020.
LONDON

MARCH 15 & 16
The European Water Industry
This high-level forum will look at long-term prospects for the industry, environmental legislation and the cost of raising standard. Russian and Eastern European approaches to water management will be assessed as well as financing future industry investment.
Enquiries: Financial Times.
Tel: 071-814 9770.
Fax: 071-873 3975/3969.
LONDON

MARCH 16
SATIS 93 – Strategic Advantage Through Information Systems
The most significant conference of 1993 for senior IT Directors/CEO's and others defining their Information Strategy. Speakers are the senior/chief executives of the leading systems, service and software companies.
Contact: Peter Barnes, Infomatics.
Tel: 081 871 2546. Fax: 081 871 3866.
LONDON

MARCH 16 & 18
Annual Hours: One Day Seminars
No one today can ignore the savings and productivity gains achievable through Annual Hours. Hear first hand evidence (from companies such as Philips) and learn its scope and application from Britain's leading practitioners.
Contact: Philip Lynch Associates.
Tel: (0904) 623703. Fax: (0904) 627538.
MANCHESTER AND LONDON

MARCH 17
The Hard Commercial Edge Of PR
Integrating PR into your marketing programme, PR for brand building. Evaluating and measuring. Speakers from TSB, Mazda, InterCity, Haagen-Dazs, CARMA, EIT, NDC, Burson-Marsteller, Quentin Bell with Peter Gummer chairing. Presented by Marketing/PR Week. Sponsored by PRCA and supported by ISBA.
Contact: Chris Kolns. Tel: 071 244 8884.
LONDON

MARCH 17–18
Introduction To Options Course – Parts 1 & 2
Day 1: Basic Terminology, Option Pricing, Trading & Hedging Strategies.
Day 2: Volatility, Advanced Trading Strategies, Portfolio Management.
Venue: Cambridge Science Park, Cambridge.
£345 (1 day only), £595 (both days).
Contact: Kathy Page, Brady Financial Seminars.
Tel: (0223) 423250.
CAMBRIDGE

MARCH 18
Pay & File
Organised by European Business Seminars to explain what companies need to know about the new rules for the assessment and collection of corporate tax. Chaired by Moores Rowland. Speakers from Price Waterhouse, Ernst & Young, BDO Binder Hamlyn, Coopers & Lybrand, McGrigor Donald.
Contact: EBS. Tel: 071 823 9001.
GLASGOW

MARCH 18
The New Electricity Market: Challenges And Opportunities
An essential day for all executives who will be affected by how energy policy develops vis-à-vis electricity, whether as large electricity consumers, plant constructors, generators, financiers, or regional electricity distributors.
Venue: The London Marriott Hotel.
Contact: Claire Meekins, The Economist Conferences.
Tel: 071 493 6711 ext. 276.
LONDON

MARCH 18–19
Geographic Information Systems: Mapping Business For The Future
GIS are emerging from their cartological niche, into the domain of mainstream business tools. This seminar investigates the wealth of opportunities arising from these new applications.
Contact: Unicom.
Tel: 0895 256484. Fax: 0895 813095.
LONDON

MARCH 18–19
IT For Marketing: Exploiting The Business Potential Of Your Customer Database
The effective management of customer information as a strategic resource is the key dimension of marketing in the 1990s. Top level speakers discuss latest techniques and technology.
Contact: Unicom.
Tel: 0895 256484. Fax: 0895 813095.
LONDON

MARCH 19
Regulatory Strategies: Controls And Responses In British Regulation
London School of Economics. One day conference. The conference is suitable for professional regulators and those directly or indirectly affected by regulatory regimes. Fee: £200.
Contact: LSE Short Courses Office, Houghton Street, London WC2A 2AE.
Tel: 071 955 7227. Fax: 071 955 7676.
LONDON

MARCH 19
Towards An Integrated European Capital Market
What are the weaknesses and how can they best be remedied? What role, if any, could be played by an independent European Regulatory Agency? Keynote speakers: Sir Leon Brittan, Dr. Breuer, M. Fleuriot, Lord Howe, Dick Taverne.
Contact: Federal Trust.
Tel: 071 259 9990. Fax: 071 259 9505.
LONDON

MARCH 22
Machinery VAT Seminar
Processing & Packaging Machinery Association (PPMA) in association with KPMG Peat Marwick are holding a VAT Seminar covering the changes in rules for machinery manufacturers and suppliers brought about by the Single European Market.
PPMA Members £75.00. Others £95.00.
To book contact: PPMA.
Tel: 081 681 8226. Fax: 081 681 1641.
TELFORD

MARCH 22–24
The Pan-European Golf Course Conference
Operations * Maintenance * Valuation Financing * Redevelopment * Upgrading Marketing * Management. Fierce competition between golf clubs means management need to constantly improve standards. Find out what works and what doesn't! Endorsed by the PGA and the EGA.
Contact: Jessica Trench, Euromoney.
Tel: 071 779 8707. Fax: 071 779 8799.
LONDON

MARCH 23–24
Castings & Forgings 93 Exhibition and Conference
The only specialist show for buyers and specifiers of cast and forged products. St Johns Swallow Hotel, Solihull, West Midlands. For free admission tickets contact: Lorraine Rogers, FMJ International Publications Ltd.
Tel: 0737 768611.
Fax: 0737 761685.
SOLIHULL

MARCH 23 & 24
The Food & Drink Industry
The aim of this year's meeting is to provide a high-level forum to discuss strategies for future growth, look at the structural changes taking place and discuss relationships between manufacturers, retailers and consumers.
Enquiries: Financial Times.
Tel: 071 814 9770.
Fax: 071 873 3975/3969.
LONDON

MARCH 23-26
Total Quality Management: The Right Way To Manage. William E Conway
Bill Conway, the first Western CEO to implement the Deming philosophy in the West, will present his Right Way To Manage Seminar. People of all levels can learn from his knowledge and turn philosophy into practice.
Contact: Mike Gallimore & Associates Ltd.
Tel: (0621) 858058.
Fax: (0621) 850972.
BIRMINGHAM

MARCH 24
Base & Precious Metals Options Course
Intensive one-day course covering various aspects of the Base & Precious Metals Options Markets: Trading Strategies, Backwardations, Pricing Models, Hedging, Volatility Exposure & Time Decay. Venue: Cambridge Science Park, Cambridge.
£345 (1 day only), £595 (both days).
Contact: Kathy Page, Brady Financial Seminars. Tel: (0223) 423250.
CAMBRIDGE

MARCH 24–26
The Second World Coal Institute Conference: Coal For Development
Major international event for coal producing and using industry worldwide: financial, legal, environmental issues; coal technologies; importance of coal to economic development.
Contact: The Event Organisation Company.
Tel: 071 228 8034.
LONDON

MARCH 25
Developing An I.T. Strategy For Marketing
This one day conference shows how to develop a coordinated strategy to transform the effectiveness of sales and marketing through the use of I.T. It explores practical management issues which need to be resolved in order that companies can make a creative use of systems.
Contact: Business Intelligence.
Tel: 081 544 1830.
Fax: 081 544 9020.
LONDON

MARCH 25–26
How To Assess The Risk Of Doing Business
A two day workshop aimed at business professionals requiring a sound working knowledge of what financial statements can reveal and the danger signs to watch for outside of the balance sheet.
Fees: £250.
Contact: Alison Songer, Graydon TCS.
Tel: 0483 751011.
Fax: 0483 750115.
BRACKNELL

MARCH 30
Strategic Alliances Conference
Alliances are back on the European agenda, but the risks are formidable. You must have clear objectives, find the right partner and invest time in managing the relationship. Cases from Mercury, DHL, Olivetti, Rover and United Distillers.
Contact: Acquisitions Monthly.
Tel: 071 823 8740.
Fax: 071 581 4331.
LONDON

MARCH 30–31
European Distribution And Logistics: The IT Strategy
The move to a common market and the advent of Pan-European organisations present major challenges in distribution and logistics. This seminar provides senior management with a review of IT strategies via discussion and case studies.
Contact: Unicom.
Tel: 0895 256484.
Fax: 0895 813095.
LONDON

MARCH 30–31
Management Tools And The Project Support Office
Based on the recent survey of project planning and support tools, this seminar provides detailed information and practical advice on the effective approach to managing IT projects through the Project Support Office.
Contact: Unicom.
Tel: 0895 256484.
Fax: 0895 813095.
LONDON

MARCH 30–31
Managing Relocation
Through a highly informative and thought-provoking programme, this national two-day conference will examine a wide range of domestic and international relocation issues.
Contact: Natalie Munden, CBI, Centre Point.
Tel: 071 397 7400.
TELFORD

MARCH 30–31
Using EDI For Business Success In The 1990's
The speakers in this seminar present user case studies demonstrating that major companies are realising the full benefit of EDI. Building on the experience of these organisations, this seminar offers a practical guide to EDI exploitation.
Contact: Unicom.
Tel: 0895 256484.
Fax: 0895 813095.
LONDON

MARCH 31
Empowerment: Changing The Corporate Mindset
This conference will help participants learn to look beyond familiar methods of human resource management and focus on the leading edge technique of "empowerment".
Venue: The London Marriott Hotel.
Contact: Claire Meekins, The Economist Conferences.
Tel: 071 493 6711 ext. 276.
LONDON

MARCH 31
Just-In-Time Partnerships
Renowned American executive speaker and consultant on JIT concepts and implementations, TQM, Purchasing, Inventory, Materials, Management Functions. Public Seminars, In-House Conferences on JIT and Total Quality Movement. Consulting Assignments – has extensive experience In-Plant training.
Contact: Frank Lane.
Tel: 021 705 2913. Fax: 0789 730219.
LONDON

MARCH 31 – APRIL 2
Emerging Markets/Restructuring The Energy Industries Of East Europe And The Former USSR
Eighth Annual PlanEcon, DRI/McGraw-Hill conferences with economic ministers from the region, fund managers, oil executives, and noted experts.
Contact: Corinne Redonnet.
Tel: 081-545-6212.
LONDON

APRIL 1–3
Cuba
Key government officials & international experts, including Ernesto Melendez Bachs, President of the State Committee, & Sir Edward Heath, will tell delegates about Cuba's potential & the practical aspects of doing business there.
Contact: Karen Pedersen, Euromoney.
Tel: 071 779 8831.
Fax: 071 779 8835.
LONDON

APRIL 2
Access To Environmental Information
Major international conference on Directive 90/313/EEC organised by Friends of the Earth with European Commission support. Focus on practical implementation into national law. Speakers from the UK and elsewhere in Europe include lawyers, regulators, representatives from industry and Friends of the Earth.
Enquiries: Sibylle Grohs.
Tel: 071 490 1555. Fax: 071 251 0818.
LONDON

APRIL 2
Off Balance Sheet Finance And Capital Instruments
Action Required By The ASB Proposals. Essential for finance directors, chief accountants, auditors, analysts, bankers, lawyers. Speakers from Ernst & Young, KPMG, Arthur Andersen, Touche Ross, Salomon Brothers, MAP Fund Managers, Cooper & Lybrand.
Contact: Athim Peters, IBC.
Tel: 071 637 4383.
Fax: 071 631 3214.
LONDON

APRIL 5 – MAY 24
FT City Course
The course is designed for employees of companies with interests in the City. Its objectives are to provide a broader understanding of all aspects of the operations of the City and the factors that make it a pre-eminent financial and trading centre.
Enquiries: Financial Times.
Tel: 071 814 9770.
Fax: 071 873 3975/3969.
LONDON

APRIL 20
Acquiring And Divesting Unquoted Companies
Scandic Crown Hotel, Victoria, London. Guidance on how to stay clear of the minefields from Barrie Pearson of Livingstone Fisher plc.
Contact: Evanna Morris, CIMA Mastercourses.
Tel: 071 637 2311.
Fax: 071 580 6991.
LONDON

APRIL 20
Fuels For Power Generation
Major energy players will outline current and future directions for the power industry in the UK. FPG covers the energy spectrum rather than a narrow view of one industry and offers delegates the opportunity for open debate.
Contact: The Institute of Energy.
Tel: 071 580 0008.
Fax: 071 580 4420.
LONDON

APRIL 20–21
Economic Briefing For Directors And Senior Managers
An opportunity to increase awareness of business issues in today's economies. This interactive seminar will focus on: Prospects for the UK; Challenges for Europe; The financial world; Global trading relationships; and Events in USA and Japan.
Contact: Dr Joseph Nellis, Cranfield School of Management.
Tel: 0234 751122.
CRANFIELD

APRIL 21
Japanese Management Accounting
Chelsea Hotel, London. Lessons for the west in how Japanese management accounting supports the efficient and successful running of the Japanese firm.
Contact: Evanna Morris, CIMA Mastercourses.
Tel: 071 637 2311.
Fax: 071 580 6991.
LONDON

APRIL 22
Society Of Technical Analysts 1993 Conference
Views and expert methods from an international field of technical analysts. An exhibition demonstrating the latest analytical computer systems.
Contact: The Membership Secretary.
Tel: (0223) 356251.
Fax: (0223) 329806.
LONDON

APRIL 22
The Brand Is The Business: Developing The Competitive Edge
Haagen-Dazs, Sandoz Pharmaceuticals, Mercury, Laura Ashley, and Guinness give their views of brand position, product vs corporate brands, and valuation in Europe and Eastern Europe.
For further information contact:
The Economist Conferences.
Tel: 071 493 6711. Fax: 071 931 0228.
LONDON

APRIL 22–23
Negotiating Computer Contracts
A unique two day seminar and workshop for everyone involved in the process of negotiating contracts for computing equipment and services. Includes legal background and participative negotiation simulation.
Contact: Peter Barnes, Infomatics.
Tel: 081 871 2546. Fax: 081 871 3866.
LONDON

APRIL 22–23
Outsourcing: The Business Strategy Of The Future?
Kensington Close Hotel, London. Evaluate proven outsourcing strategies and learn how to adapt them to your specific needs. Appropriate for senior management in all industries. Price: £545.
Contact: Tim Clark, IBC.
Tel: 071 637 4383.
LONDON

APRIL 25–27
European Enterprise Computing Conference
Sponsored by Apple Computer Europe. A major international conference designed to provide IT professionals with a framework for building information systems in the '90s and beyond. Speakers from Apple, Oracle, Lotus and Gartner Group discuss client/server computing, IT costs/benefits and systems integration.
Contact: The Event Organisation Company.
Tel: 071 228 8034. Fax: 071 924 1790.
LONDON

APRIL 26
Downsizing IT: The Management Issues
This one day conference looks beyond the technical aspects of moving from mainframe to micros to the organisational, managerial and effectiveness dimensions of successful downsizing.
Contact: Business Intelligence.
Tel: 081 544 1830.
Fax: 081 544 9020.
LONDON

APRIL 26–27
Keeping Winners – Marketing To And Managing Major Accounts
The most dynamic seminar you will ever attend. Also available as an on-site presentation.
Contact: Louise Knight, Frost & Sullivan Market Intelligence.
Tel: 071 730 3438. Fax: 071 873 9962.
LONDON

APRIL 27
Tax & Accounting Treatment Of Currency Transactions
A complete update on the radical new legislation affecting equitable taxation of foreign exchange gains and losses. Speakers include: Stephen Edge and Iain Abrahams of Slaughter & May; Eric Tomsett, Touche Ross; and Emma Lubbock of Price Waterhouse.
Contact: Sarah Avian, IBC Legal Studies and Services Ltd.
Tel: 071 637 4383. Fax: 071 631 3214.
LONDON

APRIL 27–29
The Commercial Dimensions Of Parallel Computing
This seminar reviews the state-of-the-art in High Performance Computing. Top European and US speakers from industry and academia discuss: parallel software strategies; tools for profiling, monitoring and visualisation; business applications (with major case studies).
Contact: Unicom.
Tel: 0895 256484.
Fax: 0895 813095.
LONDON

APRIL 28 & 29
Financial Innovation – New Directions For The 90s
This high-level forum will review developments in financial innovation in a period of low growth and low inflation and consider future trends.
Enquiries: Financial Times.
Tel: 071 814 9770.
Fax: 071 873 3975/3969.
LONDON

MAY 5
Can Europe Meet The Global Challenge?
Competitive Strategies For The Post-1992 World
The RIIA and The Strategic Planning Society present an international conference which examines the numerous simultaneous changes European companies must master in order to get through the 1990s successfully.
Details: Jo Mainee, The Strategic Planning Society.
Tel: 071 636 7737.
LONDON

MAY 10 & 11
European Securities Markets
The implementation of the EC's Capital Adequacy and Investment Services directives, the future structure of European equity and bond markets, the needs of international companies in raising equity and debt finance will be discussed.
Enquiries: Financial Times.
Tel: 071 814 9770.
Fax: 071 873 3975/3969.
LONDON

MAY 14
Repetitive Strain Injury
Following two successful conferences on this controversial subject, the topics for discussion will be: Upper Limb Disorder and Ergonomics, New EEC Health and Safety Legislations, Scottish and English Law and the Treatment of RSI.
Contact: Caroline Elliott, Charterhouse Conferences.
Tel: 071 606 2435.
Fax: 071 606 2351.
LONDON

MAY 16–18
Excellence In Strategic Management
Turnberry Hotel, Ayrshire, Scotland. A residential briefing organised by IBC and SDG exclusively for senior executives with significant strategy responsibility. Limited to 29 places. Price £1995.
Contact: Rory Ross-Russell, IBC.
Tel: 071 637 4383.
AYRSHIRE

MAY 20–21
Pension Practice And Employment Law
An explanation for the businessman of:- monitoring pension funds, equalisation of pension ages, Goode Committee: EC directives, sexual harassment, maternity policies, and employee benefits.
Contact: Caroline Carter, Euromoney.
Tel: 071 779 8793. Fax: 071 779 8795
LONDON

MAY 24–25
Oil & Gas Transport And Security In The Former USSR
A detailed assessment of the structure, control, economics and politics of the FSU's energy transportation infrastructure (pipelines, railways, waterways, roads). Co-hosted by Transneft, Gazprom, Kazakh Ministries of Fuel-Energy and of Transport, and Russian Foreign Policy Foundation.
Contact: Europe Energy Environment.
Tel: 071 493 4918. Fax: 071 355 1415.
LONDON

MAY 25–26
1993 European Information Management Conference
Strategies for re-engineering business and information processes and applying quality principles in IT. A Conference Board and Coopers & Lybrand meeting. The Intercontinental Hotel, London.
Contact: Jane Campbell in Brussels.
Tel: 32.2/640.62.40.
Fax: 32.2/640.67.35.
LONDON

JUNE 11
Gary Hamel: Competing For The Future, A New Strategy Paradigm
Gary Hamel, one of the most respected business experts in the world, will outline what a company must do to position itself for industry leadership in the year 2000 and beyond.
Venue: The London Marriott Hotel.
Contact: Claire Meekins, The Economist Conferences.
Tel: 071 493 6711 ext. 276.
LONDON

JUNE 15–17
Conventions & Events
An exciting new exhibition by the industry for the industry. Organised in association with the Birmingham Convention and Visitor Bureau, the event focuses on hotel & conference venues, exhibitions, tourist offices, banqueting facilities, incentive travel, display contractors in fact anything for the conventions and events market.
Contact: John McGinnell, Centre Exhibitions.
Tel: 021 780414 (Ext 2413).
BIRMINGHAM

JUNE 23
Matching Corporate Choice & Legal Practice Internationally
Do you need to know how international companies like ICI, ABB, Eurotunnel, Citibank, Unilever manage relations with law firms? 80% of time for delegate questions on litigation, billing, client care, and international referrals.
International Corporate Law.
Tel: 071 779 8534.
LONDON

JUNE 28 – AUGUST 6
London School Of Economics
The LSE is offering a selection of intensive and examined three week summer courses in the areas of International Studies, Philosophy, Criminology and Management. Suitable for those in private and public sectors seeking to update or expand existing expertise.
Contact: Nicola Meakin, LSE, Houghton Street, London WC2A 2AE.
Tel: 071 955 7533. Fax: 071 955 7675.
LONDON

JULY 9
Ralph Kilman: Corporate Culture Change – How To Manage 'Beyond The Quick Fix'
Repeated due to demand. Learn how to understand culture, how to manage it and why it is the key driving force and energy behind all efforts at organisational change and continuous improvement.
Contact: Fiona Pink, The Economist Conferences.
Tel: 071 493 7611. Fax: 071 931 0228.
LONDON

SEPTEMBER 20
Repetitive Strain Injury
One day conference on the highly controversial subject which affects both blue and white collar employees and employers. An update on the laws for both plaintiff and defendants, the new health and safety legislation and managing RSI in the workplace.
Contact: Caroline Elliott, Charterhouse Conferences.
Tel: 071 606 2435. Fax: 071 606 2351.
GLASGOW

INTERNATIONAL

MARCH 2
Europe's Motor Industry: Competitive Challenge To The Year 2000
Speakers to include: Paolo Cantarella, Fiat Auto, Italy: Keith Butler-Wheelhouse, Saab Automobile, Sweden; Dieter Zetsche, Mercedes-Benz, Germany.
For further information contact:
Fiona Pink, The Economist Conferences.
Tel: 071 493 6711. Fax: 071 931 0228.
GENEVA

MARCH 10–12
European Business Information Conference & Exhibition
Information is key to making business decisions. This conference and exhibition is for those researchers and information specialists responsible for tracing business, company and financial information in Europe. Senior delegates from Europe and US.
Contact: Jenny Perry, TFPL Ltd.
Tel: 071 251 5522.
Fax: 071 251 8318.
BARCELONA

MARCH 11
EC Romania Business Forum
Up-to-date intelligence on industrial and commercial opportunities in Romania for EC companies. Top speakers from Romanian Government and Ministries, EC Commission and EC industry. Organised by EC Commission.
Contact: Societe Generale de Developpement SA.
Tel: +32 2 512 4636.
Fax. +32 2 512 4653.
BRUSSELS

MARCH 11–12
DRI/McGraw Hill's International Economic Outlook Conference
DRI's International Economic Service provides company executives with detailed assessments of the prospects for market, financial and credit conditions, and the principal risks ahead. The conference will address these issues for the main international economies.
Contact. Corinne Redonnet.
Tel: 081 545 6212.
FRANKFURT

MARCH 16-18
International Gaming Business Exposition (IGBE) Europa '93
IGBE Europa '93 is the only major European exhibition exclusively for the casino gaming industry. IGBE Europa showcases all major products and services of importance to the casino.
Special events will be held.
Contact: Eileen B. Band.
Phone (USA) (203) 852-0500, ext. 107.
Fax (USA): (203) 838-3710.
MONACO

MARCH 19
European Human Resources & Personnel Management
This conference explores the development of personnel and human resources strategies in the Single Market and beyond. Speakers include the personnel director of British Nuclear Fuels and the head of personnel at the European Commission.
Contact: Lucinda Hallan, Rowlands International.
Tel: (352) 463357.
LUXEMBOURG

APRIL 28–29
Asset Securitisation In The Nordic Countries
Key government officials and international experts will look at the potential use of securitisation and explain the practicalities for corporates, banks, investors and intermediaries.
Contact: Sue Uddins, Euromoney.
Tel: 071 779 8830.
Fax: 071 779 8835.
STOCKHOLM

APRIL 28–29
Black Sea Oil & Gas: Emerging Opportunities
The first public international forum on the Central Asian and South-East European oil and gas industries, with senior delegations from the entire region. Hosted by Marmara Bank and Europe Energy Environment.
Contact: Europe Energy Environment.
Tel: 071 493 4918.
Fax: 071 355 1415
ISTANBUL

APRIL 30
Environmental Management
Major successful companies present practical strategies for anticipating and complying with environmental legislation in Europe. A Conference Board Forum hosted by The International Academy of the Environment.
Contact: Jayna Clinton in Brussels.
Tel: 32.2/640.62.40.
Fax: 32.2/640.67.35.
GENEVA

MAY 13–14
Germany – Opportunities And Developments In Leasing
In-depth insight into current trends in German leasing, including effects of unification, with forum of key industry players. Simultaneous translation – German/English.
Contact: Caroline Carter, Euromoney.
Tel: +44 71 779 8793.
Fax: +44 71 779 8795.
DUSSELDORF

MAY 18–19
Distressed Commercial Real Estate Assets: Strategies
During this two-day seminar experts and government officials examine the opportunities for organisations to turn non-performing commercial real estate loans and other assets into cash.
Contact: Bonnie Bristow, Euromoney.
Tel: 071 779 8833.
Fax: 071 779 8835.
NEW YORK

JUNE 3–4
The International Tax Review Presents The 3rd International Tax Planning Conference
The George V Hotel, Paris. The ITPC is the international event for identifying new business opportunities in the tax industry. The official meeting place for tax specialists.
For further details contact: Paula Blay.
Tel: +44 +71 779 8763.
PARIS

JUNE 14 & 15
Multinational Corporate Tax Strategy In Europe
A conference to examine advanced techniques for tax efficient planning in multinational corporate transactions: transfer pricing, reconstructions, financing techniques and treasury management. Speakers represented from leading international accountants and tax firms.
Contact: Vicki Goffin, IBC Legal Studies and Services Limited.
Tel: 071 637 4383.
Fax: 071 631 3214.
AMSTERDAM

JUNE 17
Finance Forum
Making acquisitions and exercising financial controls over foreign subsidiaries: leading financial executives share their expertise and experiences. A Conference Board management forum hosted by Credit Suisse.
Contact: Jane Campbell in Brussels.
Tel: 32.2/640.62.40.
Fax: 32.2/640.67.35.
ZÜRICH

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain a free Unit Trust Code Booklet ring (071) 873 4378.

AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro

INITIAL CHARGE: [illegible] This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: [illegible]

TIME: [illegible]

HISTORIC PRICING: [illegible]

FORWARD PRICING: [illegible]

SCHEME PARTICULARS AND REPORTS: [illegible]

[illegible]
FT Managed Funds Service.

[illegible]
Tel: 071 — [illegible]

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Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Sharp (Albert E.) & Co (1000)F						
Admin: 5 Rayleigh Rd Hutton, Brentwood Essex						
Enquiries: 0277 227300 Dealing: 0277 261010						
European	5	108.40	109.10	114.80	1.40	-
Intl Bond & Conv	5	125.00	125.40	132.00	5.47	47424
Pooled Pension #	7	150.5	154.5	165.3	-	47257
Smaller Cos	5	60.90	62.79	66.09	1.98	46203
UK General	5	115.20	116.90	123.10	2.78	-
Sheppards Unit Trust Mngmt Ltd (1200)F						
1 White Hart Yard, London Bridge SE1 071 407 5966						
Income	5	384.13	384.13	408.65	5.06	40913
Global Inc	5	57.84	57.84	61.53	3.96	40916
Brit Leaders	5	313.58	313.58	333.6	3.07	40914
Intl Leaders	5	184.11	184.11	195.86	1.68	40915
Pn. Sm Bd Cap Inc ¥	3½	53.04	54.35	56.47	3.01	-
Singer & Friedlander UT Mgmt Ltd (1000)F						
PO Box 224, Beckenham, BR3 4TF 081-663 3003						
European Trust	6	52.74	52.83	56.21	1.38	42492
Far Eastern Tst	6	56.51	57.24	60.89	0.82	-
Smaller Cos	5	140.9	145.5	154.7	2.14	47431
Smith & Williamson Unit Tst Mgrs (1600)F						
1 Riding House St, London W1A 3AS 071-637 5377						
S & W American ‡	5	271.9	272.5	288.3	0.94	41398
S & W Capital	5	114.7	114.7	122.9	2.10	40181
S & W Cash ‡	0	102.44	102.44	102.44	6.03	47903
S & W European	5	115.7	115.7	122.4	0.90	40253
S & W Far Eastern	5	120.6	121.8	128.8	0.14	46974
S & W Growth	5	123.1	124.6	131.8	1.76	40391
S & W Income	5	109.3	110.3	116.7	5.13	41392
S & W Magnum	5	122.2	122.2	130.8	[illegible]	[illegible]
S & W Smllr Secs	5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
S & W Thoroughbred	5	140.8	140.8	151.0	1.92	40263
Societe Generale Touche Remnant (1200)F						
Mermaid Hse, 2 Puddle Dock, EC4V 3AT 071-410 4029						
American Gwth	5¼	80.41	80.41	86.00	0	41525
Eur Sp Sits Acc	5¼	45.02	45.02	47.84	0	41526
Eur Sp Sits Inc	5¼	42.52	42.52	45.18	0	41527
Far East Opps Acc	5¼	29.47	29.47	31.98	0	41668
General Growth	5¼	30.28	30.28	32.45	0	41685
General Growth Acc	5¼	95.73	95.73	102.90	0	41528
Global Tech	5¼	98.15	98.15	105.00	2.44	47438
Income Growth	5¼	117.00	117.00	126.90	0	41529
Income Growth Acc	5¼	96.09	96.09	103.20	3.99	41530

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Whittingdale Unit Tst Mgmt Ltd (0830)F						
2 Honey Lane, London EC2V 8BT 071-600 0462						
Challenger	2¼	92.91	92.91	95.07	0.00	41996
Short Dtd Gilt	1¼	109.4	109.4	110.8	4.47	41997
U.S. Govmnt Bond	1¼	$0.7112	0.7112	0.7206	0.00	41998
Gilt Income	4	52.35	52.35	54.47	8.00	47010
Gilt Growth	4	65.21	65.21	67.87	0.00	47009
City Reserve	0	52.19	52.19	52.19	6.29	47006
Woolwich Unit Trust Managers Ltd (1700)H						
1 White Oak Square, Swanley BR8 7AG 0705 388046						
Stockmarket Fd F	5	65.16	65.33	69.49	2.22	40998

OTHER UK UNIT TRUSTS

	Bid Price	Offer Price	Yield Gross	City-line
Baillie Gifford & Co Ltd				
Int. I Expt Feb 19	671.2	692.71	1.00	40105
Baring Investment Mngmt Ltd				
155 Bishopsgate, London EC2M 3XY				
071 214 1050 (general enquiries) 071 214 1004 (dealing)				
Charitable Funds				
UK Growth & Income	52.84	54.73	5.0	-
Income Plus	50.07	51.10	7.4	-
James Capel Fund Managers Ltd				
European Exempt	£110.814	112.088	2.49	-
Japanese Exempt	£111.939	113.657	-	-
Managed Exempt	£127.638	134.928	3.06	43128
North American Exempt	£101.39	103.34	1.16	-
Pacific Exempt	£110.583	112.937	3.00	-
Cent. Bd. of Fin. of Church of England‡‡				
2 Fore Street, London EC2Y 5AQ 071-588 1815				
Inv Fund Jan 31	585.00	591.20	5.04	40251
Fxd Int Sec Jan 31	153.10	153.85	9.50	40252
Deposit Fund See Money Market Trust Funds				
Charinco/Charishare‡‡ (1000)F				

INSURANCES

AXA Equity & Law Life Assce

Acuma Life Assurance Ltd

AEGON Life Assurance Co (UK) Ltd

Abbey Life Assurance Co Ltd

Allied Dunbar Assurance Plc

American Life Insurance Co UK

Barclays Life Assur. Co Ltd

Black Horse Life Assurance

Britannia Life Assurance

Britannia Life Ltd

Canada Life Group

Abbey National Life Plc

Cannon Assurance Ltd (z)

Century Life Assurance Company Ltd

Century Life Plc

Citibank Life

City of Westminster Assurance (z)

Clerical Medical/Fidelity Investments

Clerical Medical Investment Group

Colonial Mutual Group

Combined Life Assurance Co

Commercial Union Group

Assicurazioni GENERALI SpA

Consolidated Life Assurance Co Ltd

Crown Financial Management Ltd

Eagle Star Insur./Midland Assur.

Equitable Life Assurance Society

Eurolife Assurance Company Ltd

Family Assurance Society

Friends Provident

GT Unit Managers Ltd

General Accident

General Portfolio Life Insce Plc

Growth & Sec. Life Assce. Soc. Ltd

Guardian Royal Exchange

Hearts of Oak Insurance Group

Eagle Star Life Assurance Co Ltd

Henderson Administration(z)

Hill Samuel Life Assur. Ltd

Homeowners Friendly Society

Ideal Insurance Co Ltd

Interlife Assurance Co Ltd

Irish Life Assurance Co Ltd

Lancashire & Yorkshire Assce Society

Laurentian Life plc

Legal & General

Legal & General - Contd.

Liberty Life Assurance Co Ltd

Life Association of Scotland

Lifetime Assurance Co Ltd

London Life

London & Manchester Assurance (z)

M & G Life and M & G Pensions

MGM Assurance

Manchester Unity Assurance

Manulife Group

Merchant Investors Assurance Co Ltd

Mercury Life Assurance Co Ltd

Midland Life Limited

NM Life Assurance Ltd

N & P Life Assurance Ltd

National Mutual Life

National Provident Institution

National Westminster Life Assur Ltd

Norwich Union Insurance Soc.

Norwich Union Pensions Management Ltd

Pearl Assurance (Unit Funds) Ltd

Premium Life Assurance Co Ltd

Professional Life Assurance Co Ltd (z)

Continued on next page

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Prolific Life & Pensions Ltd
Stramongate, Kendall, Cumbria LA9 4UB 0539 733733
Managed Fund see Balanced Growth Managed Fund

	Bid Price	Offer Price	Yield Gross	City-line
Life Funds				
Balanced Grth Mngd	672.9	715.9	-	43315
Adventurous Mngd	166.0	176.7	-	46402
Cautious Mngd	128.9	137.2	-	46403
Cash Fd	317.9	[illegible]	-	43316
Property Fund	216.7	230.6	-	43317
Equity Fund	778.6	828.3	-	43318
Fxd. Int. Fund	416.9	439.4	-	43319
International	346.9	369.1	-	43320
High Income	599.6	637.3	-	43321
Far East	465.3	495.0	-	43322
North American	[illegible]	490.7	-	43323
Special Sits	554.8	590.3	-	43324
Technology	453.9	482.5	-	43325
Extra Inc Fd	327.6	348.6	-	43326
Convertible & Gilt Fd	159.9	170.2	-	43327
[illegible]	188.0	200.0	-	43328
Gilt Fund 20	448.0	476.6	-	43329
[illegible]	126.0	134.1	-	43330
Pref & Fixed Int	115.5	122.9	-	46332
UK Blue Chip	118.4	124.8	-	47044
Recovery Fund	117.0	123.3	-	47056
Equity Income Dist	109.1	116.1	4.80	47816
Managed Dist	103.4	110.0	5.60	47817
High Yield Dist	106.0	111.8	8.30	44422
Pension Funds				
Balncd Gth Mngd Pens Acc	795.7	832.6	-	43331
Adventurous Mngd Pens Acc	176.1	185.4	-	46404
Cautious Mngd Pens Acc	149.7	157.6	-	46405
[illegible]	366.8	386.2	-	43332
Property Pens Acc	295.4	311.0	-	43333
Fix Int. Pens Acc	458.8	[illegible]	-	43334
Equity Pens Acc	1022.5	1076.4	-	43335
International Pens Acc	324.7	341.8	-	43336
High Inc Pens Acc	679.8	715.6	-	43337
Tech Pens Acc	319.0	335.8	-	43338
[illegible]	354.6	373.3	-	43339
[illegible]	474.5	499.5	-	43340

Reliance Mutual
Reliance House, Tunbridge Wells, Kent 0892 510033

	Bid Price	Offer Price	Yield Gross	City-line
Deposit Acc Fd	169.1	178.0	-	43575
Equity Acc Fd	407.1	428.5	-	43576
Managed Acc Fd	360.7	379.7	-	43577
Prop Fd (1st Issue)	-	646.5	-	43578
Prop Acc Fd (2nd Iss)	124.3	130.8	-	43579
Unit Trust Mn. Fd	177.2	186.5	-	43580
RL Pension Funds				
Deposit Acc	245.9	258.9	-	43581
Equity Acc	305.6	321.7	-	43582
Fixed Int Acc	252.5	265.8	-	43583
Gilt Indx Lnk Acc	190.3	200.3	-	43584
Managed Acc	403.2	424.4	-	43585

J Rothschild Assurance PLC
J Rothschild House, Dollar Street, Cirencester
Telephone 0285 640302 Helpline 041 307 6000

	Bid Price	Offer Price	Yield Gross	City-line
Life Funds				
Income Distribution	-	-	-	-
JRA/M&G Managed	118.5	124.8	-	46639
JRA/Scottish Amicable Mngd	114.3	120.4	-	46996
JRA/St James's Place Mngd	121.2	127.6	-	47133
Deposit	100.5	105.8	-	46281
Far East	125.0	131.6	-	46304
Gilts	107.9	113.6	-	46397
Greater European	117.0	123.2	-	46498
North American	132.3	139.3	-	46859
UK Equity	119.3	125.6	-	47134
Pension Funds				
JRA/M&G Managed cap	117.3	123.5	-	46800
JRA/M&G Managed acc	121.6	128.1	-	46714
JRA/Scottish Amicable Mngd cap	114.4	120.4	-	47129
JRA/Scottish Amicable Mngd acc	118.6	124.9	-	47128
JRA/St James's Pl Mngd cap	126.7	133.4	-	47131
JRA/St James's Pl Mngd acc	131.4	138.4	-	47130
Deposit cap	100.3	105.6	-	46285
Deposit acc	104.1	109.6	-	46284
Far East cap	122.8	129.3	-	46394
Far East acc	127.3	134.0	-	46358
Gilts cap	105.5	111.1	-	46401

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

FT MANAGED FUNDS SERVICE

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JERSEY (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

JERSEY (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGE AND MONEY MARKETS

Focus on the Yen

CONCERN over the Yen ahead of Saturday's meeting of the Group of Seven finance ministers and central bank governors is expected to be one of the focal points for financial markets this week, *writes Peter John.*

The conference will be the first of the G7 policymakers since President Clinton took office on January 20. It is expected to examine ways to help the world economy and particularly to rein in Japan's soaring trade surplus.

Press meetings given by the Japanese finance and economic planning ministers on Tuesday and Friday will offer clues to the path the G7 meeting will take.

The fall in German M3 money supply announced on Friday and comments by Mr Alan Greenspan, the chairman of the Fed, are also likely to act as financial market motors.

Most economists have seen Germany's 2.3 per cent contraction in money supply as a technical correction - the result of rebasing the figures on the fourth quarter of last year when there was an unusually heavy level of intervention. However, some still argue that it augurs well for an easing of monetary policy some time after the next Bundesbank meeting on March 4.

On the other hand the comments made in Mr Greenspan's testimony to Congress signalled a tightening of monetary policy. At the very least it removed the possibility of easing rates, a threat which has hit the US currency in the past week.

Mr David Deakin, the economist for Nikko Bank says: "If German rates are likely to fall and if the American rates are less likely to fall the dollar/D-Mark is likely to rise."

Meanwhile, the market will continue to watch the performance of the Spanish peseta and the Swedish Krona which have been propped up by intervention from their respective central banks.

In the UK, money is expected to be tighter this week as a result of a large amount of short-term loans expiring and needing to be rolled over.

£ IN NEW YORK

Feb 19	Close	Previous Close
£ Spot	1.4533 - 1.4543	1.4470 - 1.4480
1 month	0.37-0.36pm	0.37 - 0.34pm
3 months	1.07-1.04pm	1.07 - 1.04pm
12 months	2.90-2.80pm	3.05 - 2.95pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

CURRENCY MOVEMENTS

OTHER CURRENCIES

Feb 19	£	$
Argentina	1.4535 - 1.4560	0.9999 - 1.0000
Australia	2.1170 - 2.1190	1.4520 - 1.4535
Brazil	27801.5 - 27853.7	19116.8 - 19118.5
Finland	8.5615 - 8.6695	5.8650 - 5.8950
Greece	314.800 - 321.100	217.270 - 221.610
Hong Kong	11.2750 - 11.2870	7.7320 - 7.7330
Iran	2200.00*	1495.00*
Korea(Sth)	1148.10 - 1166.60	793.70 - 799.90
Kuwait	0.44700 - 0.44800	0.30725 - 0.30775

CURRENCY RATES

CHICAGO

POUND SPOT - FORWARD AGAINST THE POUND

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

EXCHANGE CROSS RATES

EURO-CURRENCY INTEREST RATES

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

Fixed. Finance Houses Base Rate 7½ from February 1, 1993: Certificates of Tax Deposit (Series 6): Deposit £100,000 and over held under one month 2¾ per cent; one-three months 5¼ per cent; three-six months 5 per cent; six-nine months 4¾ per cent; nine-twelve months 4½ per cent; Under £100,000 2¾ per cent from Jan.27, 1993. Deposits withdrawn for cash 1¼ per cent.

Previous day's open int. Calls 665,503 Puts 507,186 (All currencies)
Previous day's volume Calls 143,556 Puts 14,735 (All currencies)

LONDON RECENT ISSUES

FIXED INTEREST STOCKS

RIGHTS OFFERS

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

BASE LENDING RATES

	%		%		%
Adam & Company	6	Cyprus Popular Bank	6	Mount Banking	6
Allied Trust Bank	6	Duncan Lawrie	6	NatWestminster	6
AIB Bank	6	Equatorial Bank plc	6	Nykredit Mortgage Bnk	6.5
●Henry Ansbacher	6	Exeter Bank Limited	7	●Rea Brothers	6
B & C Merchant Bank	13	Financial & Gen Bank	7	Roxburghe Bank Ltd	6
Bank of Baroda	6	●Robert Fleming & Co	6	Royal Bk of Scotland	6
Banco Bilbao Vizcaya	6	Girobank	6	●Smith & Williamson Secs	6
Bank of Cyprus	6	●Guinness Mahon	6	Standard Chartered	6
Bank of Ireland	6	Habib Bank AG Zurich	6	TSB	6
Bank of India	6	●Hambros Bank	6	Unibank plc	6
Bank of Scotland	6	Hampshire Trust Plc	13.5	●United Bk of Kuwait	6
Barclays Bank	6	Heritable & Gen Inv Bk	6	Unity Trust Bank Plc	6
Brit Bk of Mid East	6	●Hill Samuel	6	Western Trust	6
●Brown Shipley	6	C. Hoare & Co	6	Whiteaway Laidlaw	6
CL Bank Nederland	6	Hongkong & Shanghai	6	Yorkshire Bank	6
Citibank NA	6	Julian Hodge Bank	6		
City Merchants Bank	6	●Leopold Joseph & Sons	6		
Clydesdale Bank	6	Lloyds Bank	6		
The Co-operative Bank	6	Meghraj Bank Ltd	6		
Coutts & Co	6	McDonnell Douglas Bk	6		
Credit Lyonnais	6	Midland Bank	6		

● Members of British Merchant Banking & Securities Houses Association

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

NOTES - Gross: Contractual rate of interest payable, not taking account of the deduction of basic rate income tax. Net: Rate of interest payable after allowing for deduction of basic rate income tax. Gross CAR: Gross rate annualised to take account of compounding of interest paid other than once a year. 'Compounded Annual Rate' Int Crn: Frequency at which interest is credited to the account.

STOCK INDICES

	Feb 19	Feb 18	Feb 17	Feb 16	Feb 15	Feb 12	1992/93 High	1992/93 Low	Since Compilation High	Since Compilation Low
FT-SE 100	2840.0	2837.7	2814.0	2812.2	2845.9	2843.0	2873.0	2281.0	2873.8	986.9
FT-SE Mid 250	3048.3	3040.3	3017.4	3008.5	3022.6	3006.3	3051.4	2157.8	3051.4	1379.4
FT-SE-A 350	1404.6	1402.9	1391.5	1390.0	1404.3	1401.6	1416.5	1103.1	1416.5	664.5
FT-A All-Share	1387.47	1385.59	1374.50	1373.41	1386.96	1384.19	1398.63	1065.13	1398.63	61.92
FT-SE Eurotrack 100	1138.60	1132.96	1121.77	1123.14	1132.97	1129.97	1200.27	937.42	1200.27	900.46
FT-SE Eurotrack 200	1191.09	1191.03	1173.61	1179.64	1184.15	1181.06	1248.79	1010.00	1248.79	938.62
FT Ordinary	2200.7	2197.2	2175.8	2171.3	2187.8	2187.0	2226.1	1670.0	2226.1	49.4
FT Government Secs.	96.32	96.13	96.00	95.95	95.85	95.72	96.32	85.11	127.40	49.18
FT Fixed Interest	112.06	111.83	111.75	111.69	111.82	111.18	112.06	97.15	112.06	50.53
FT Gold Mines	93.5	93.5	96.2	91.9	91.2	94.3	160.6	60.0	734.7	43.5

LONDON SHARE SERVICE

BRITISH FUNDS

BRITISH FUNDS - Cont.

BRITISH FUNDS - Cont.

OTHER FIXED INTEREST

Continued on next page

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY FEBRUARY 19 1993 US Dollar Index	% chg ($) since 31/12/92	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/92	Gross Div. Yield	THURSDAY FEBRUARY 18 1993 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 1992/93 High	1992/93 Low	Year ago (approx)
Australia (68)	128.28	+2.5	130.89	96.58	109.11	123.95	+2.4	3.97	129.32	132.64	97.73	109.83	125.15	153.68	108.18	144.98
Austria (19)	145.13	+3.5	148.09	109.27	123.44	123.37	+5.1	1.82	144.22	147.92	108.99	122.48	123.40	186.70	131.16	184.98
Belgium (42)	141.31	+6.1	144.19	106.38	120.19	117.44	+7.5	5.14	140.84	144.46	106.43	119.61	117.05	152.27	131.19	138.29
Canada (113)	118.75	+2.7	121.17	89.40	101.00	108.05	+1.5	3.05	117.81	120.83	89.02	100.04	107.44	142.12	111.36	134.68
Denmark (33)	206.23	+10.8	210.42	155.26	175.40	175.51	+10.5	1.56	206.17	211.46	155.80	175.09	175.25	273.94	181.70	248.22
Finland (23)	69.70	+0.1	71.12	52.48	59.29	86.02	+12.6	1.88	68.33	70.09	51.64	58.03	84.68	89.80	52.84	87.01
France (98)	155.10	+5.4	158.26	116.76	131.91	134.79	+5.7	3.33	154.33	158.29	116.62	131.05	133.93	168.75	136.93	153.39
Germany (62)	112.60	+8.2	114.89	84.78	95.77	95.77	+9.3	2.38	112.47	115.38	85.00	95.51	95.51	129.69	101.59	117.66
Hong Kong (55)	247.39	+11.7	252.43	186.25	210.43	245.60	+11.5	3.68	249.06	255.45	188.21	211.52	247.20	262.28	176.36	196.57
Ireland (16)	132.04	-2.8	134.73	99.41	112.30	124.57	+5.7	4.26	131.68	135.06	99.51	111.83	123.99	173.71	122.98	162.57
Italy (75)	59.45	+8.3	60.66	44.75	50.56	69.68	+15.4	2.97	60.21	61.75	45.50	51.13	69.99	80.86	47.47	75.03
Japan (472)	108.95	+3.7	111.16	82.02	92.68	82.02	-1.1	1.01	108.45	111.24	81.96	92.12	81.96	140.95	87.27	118.53
Malaysia (69)	268.98	+2.9	274.46	202.50	228.78	272.14	+3.3	2.46	267.68	274.55	202.28	227.32	270.98	282.42	212.49	249.58
Mexico (18)	1472.36	-10.7	1502.34	1108.47	1252.32	4980.73	-11.4	1.20	1489.14	1527.35	1125.34	1264.66	5036.67	1789.77	1185.84	1694.11
Netherland (25)	158.82	+4.9	162.05	119.57	135.09	133.45	+6.2	4.26	158.16	162.22	119.52	134.32	132.78	169.70	147.88	150.04
New Zealand (13)	44.43	+3.6	45.33	33.45	37.79	45.69	+3.1	4.79	44.92	46.07	33.95	38.15	46.24	46.52	37.39	46.12
Norway (22)	141.73	+2.9	144.62	106.70	120.55	133.51	+3.3	1.87	141.21	144.83	106.71	119.92	133.35	192.95	128.05	163.46
Singapore (38)	219.58	+2.9	224.05	165.31	186.76	166.36	+3.1	1.98	220.20	225.84	166.40	187.00	166.57	229.63	179.65	221.51
South Africa (60)	170.60	+15.2	174.07	128.43	145.10	168.26	+7.1	3.01	168.41	170.68	125.76	141.32	167.97	263.60	134.21	221.23
Spain (47)	125.92	+8.0	128.48	94.80	107.10	111.85	+10.5	5.44	126.26	129.50	95.41	107.22	112.05	161.72	107.10	153.75
Sweden (36)	163.57	-1.2	166.90	123.15	139.13	182.95	+5.5	2.18	162.19	166.35	122.57	137.74	181.16	200.28	149.69	174.67
Switzerland (56)	112.43	-0.5	114.72	84.65	95.64	105.11	+2.4	2.03	112.91	115.80	85.33	95.90	105.63	122.37	95.99	98.51
United Kingdom (226)	166.64	-3.3	170.04	125.44	141.72	170.04	+0.7	4.33	165.60	169.85	125.13	140.62	169.85	200.07	161.86	177.23
USA (522)	177.23	-0.5	180.84	133.43	150.75	177.23	-0.5	2.85	176.29	180.82	133.23	149.73	176.29	183.74	160.92	167.87
Europe (779)	138.16	+1.6	140.97	104.01	117.51	130.52	+4.5	3.59	137.72	141.26	104.08	116.97	130.28	156.88	131.31	144.51
Nordic (114)	151.18	+1.9	154.25	113.81	128.58	148.70	+6.9	1.86	150.11	153.96	113.44	127.48	147.57	188.52	141.24	173.60
Pacific Basin (715)	114.15	+4.1	116.48	85.94	97.10	88.29	-0.1	1.35	113.79	116.71	85.99	96.64	88.30	141.97	93.70	122.00
Euro - Pacific (1494)	123.85	+2.9	126.38	93.24	105.34	105.02	+2.0	2.37	123.46	126.63	93.29	104.84	104.94	145.21	113.80	131.27
North America (635)	173.59	-0.4	177.13	130.70	147.68	172.53	-0.4	2.86	172.66	177.09	130.49	146.66	171.62	179.56	158.70	165.76
Europe Ex. UK (553)	120.27	+5.1	122.72	90.57	102.32	108.49	+7.3	3.09	120.15	123.23	90.82	102.06	108.23	132.98	111.33	124.51
Pacific Ex. Japan (243)	165.26	+6.1	168.63	124.44	140.58	153.10	+6.2	3.50	166.15	170.41	125.58	141.12	153.88	175.31	146.06	156.29
World Ex. US (1685)	125.01	+2.9	127.55	94.12	106.33	107.02	+1.9	2.39	124.57	127.76	94.14	105.79	106.93	146.91	115.99	133.37
World Ex. UK (1981)	139.27	+2.0	142.10	104.85	118.46	124.56	+0.9	2.39	138.71	142.27	104.83	117.81	124.20	150.56	127.21	140.84
World Ex. So. Af. (2147)	141.55	+1.4	144.44	106.58	120.41	128.18	+0.8	2.58	140.98	144.60	106.55	119.74	127.83	153.05	130.04	143.53
World Ex. Japan (1735)	160.29	+0.7	163.55	120.68	136.35	155.74	+1.5	3.13	159.62	163.72	120.64	135.58	155.21	165.40	151.93	158.81
The World Index (2207)	141.66	+1.5	144.54	106.65	120.49	128.55	+0.9	2.58	141.06	144.67	106.60	119.80	128.21	153.70	130.66	144.01

Base values: Dec 31, 1986 = 100. Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local). Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

Constituent changes during the week ending 19/2/93: Deletion: Finanziana Ernesto Breda (Italy). Name change. Robert Jones Inv. to RJI Ltd. (New Zealand)

LONDON SHARE SERVICE

AMERICANS

	Notes	Price £	Wk% ch'nge	Div gross	Dividends paid	Last xd	City line
Abbott Labs		17½xd	-12.1	68c	FeMyAuNv	12.1	1503
Allegheny & W	♥	510p	-4.7	30c	-	-	-
Amdahl		636p	-7.3	10c	NvFeJaAu	31.1	-
Amer Cyanamid		33⅛	-10.0	$1.65	MrJeSeDe	4.3	-
Amer Express		16½xd	-5.6	$1.00	FeMyAuNv	23.9	1594
Amer T & T		38½xd	-3.9	$1.32	FeMyAuNv	29.12	1597
Ameritech		51⅛	-1.9	$3.68	FeMyAuNv	28.3	-
BankAmerica		34⅝xd	-6.7	$1.40	MrJeSeDe	18.2	1744
Bankers NY		46xd	-4.4	$3.12	ApJyOcJa	24.12	1745
Bell Atlantic		37⅛	-1.3	$2.60	FeMyAuNv	4.7	-
BellSouth		37⅞	-1.4	$2.76	FeMyAuNv	6.4	-
Bethlehem Steel	♥	12⅞xd	-7.8	-	MrJeSeDe	8.2	1821
Bowater		1462pxd	-4.7	$1.20	OcJaApJy	8.3	1884
CPC	h	31¼xd	-5.3	$1.28	JaApJyOc	29.12	2263
Cadiz Land Inc	♥	118p	—	-	†	-	-
California Engy		1418p	-.1	-	-	-	-
Chase Manhattan		20½xd	-6.1	$1.20	FeMyAuNv	28.1	2109
Chrysler		20⅞xd	-0.5	60c	ApJyOcJa	10.12	2135
Citicorp		17⅛xd	-5.8	-	-	23.10	2141
Colgate-Palm		39⅝xd	-5.1	$1.24	FeMyAuNv	22.7	2184
Cont'l Bank		1565p	-6.3	60c	DeMrJeSe	31.5	-
Dana		31xd	-8.1	$1.60	MrJeSeDe	25.11	2306
Data General		647p	4.1	-	-	-	-
Decoct Inds	♥	146p	—	-	†	-	-
Dun & Brad		38⅞	-1.9	$2.28	MrJeSeDe	13.2	-
Eaton		55⅛	-6.1	$2.20	FeMyAuNv	2.2	2410
Echlin		17⅝xd	-6.2	70c	JaApJyOc	29.12	3046
FPL		26½xd	-1.2	$2.44	MrJeSeDe	25.8	-
Ford Motor		32⅞	-10.1	$1.60	MrJeSeDe	28.1	2615
Gen Elect		56¼xd	-6.8	$2.52	JaApJyOc	2.12	2875
General Host	♥	676p	-8.1	34c	†	13.12	-
Gillette		37½xd	-3.8	72c	MrJeSeDe	27.1	2695
Hasbro		20⅞	—	24c	FeApJyNv	1.9	-
Honeywell		22⅞	-4.2	88c	MrJeSeDe	23.11	2919
Houston Inds		32⅞	-.4	$3.00	MrJeSeDe	10.11	-
IBM		36⅛xd	—	$2.16	MrJeSeDe	5.2	2966
Ingersoll-Rand		22⅛xd	-11.5	70c	MrJeSeDe	11.2	2979
Lockheed		37⅞	-9.6	$2.12	MrJeSeDe	16.2	-
Lowe's	h	1919p	-5.9	28c	JaApJyOc	11.7	-
Merrill Lynch		43⅞xd	-7.8	$1.20	FeMyAuNv	30.4	3351
Morgan (JP)		42⅞xd	-4.7	$2.40	JaApJyOc	16.12	3418
Morris (Philip)		48⅞xd	-5.3	$1.72	JaApJyOc	10.12	5161
NYNEX		60⅛	-1.0	$4.64	FeMyAuNv	27.6	4740
Pall		13½xd	-7.7	32c	FeMyAuNv	24.1	-

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUILDING MATERIALS - Cont.

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Titan		202	16.1	3.57	3.1	Jul Feb	18.1	4601
Travis Perkins		179	-1.6	8.0	0.9	Nov Jul	5.10	4237
Tudor		28	-7.1	0.5	0.6	Jul	15.4	4325
Unigroup		18	24.1	-	-	-	8.86	4349
Waterhouse		35	6.1	-	-	Apr	9.7	1697
Wickes		96	—	-	-	-	8'90	4498
Wolseley		561	0.7	12.95	1.9	Jul Jan	14.12	4526

BUSINESS SERVICES

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
ADT $		520	-4.2	-	-	-	-	2861
Adam & Harvey		228	—	11.8	4.6	Jan Sep	16.11	1043
Air London		86	14.7	3.5	2.3	Dec Jun	19.10	1423
African Lakes		47	—	2.0	2.5	Jun	11.5	1528
Auto'ted Sec		136	-2.9	4.9	2.2	Jun Dec	19.10	1706
BET		98	0.5	6.5	1.1	Feb Aug	30.11	1820
BNB Res		89	-4.2	4.9	1.7	Nov May	19.10	1769
BPP		305	—	6.9	2.5	Nov May	24.8	1889
Barbour Index		270	0.4	7.25	2.0	Oct Apr	18.1	1760
Boustead		17	13.3	0.7	0.5	Jan Jul	16.11	1883
Bridgend		15	3.4	1.2	1.7	Jan Jun	2.11	1948
Brit Data Mangt		226	3.2	4.0	2.2	Nov	21.9	1577
Brooks Service		61	5.2	4.65	0.8	May	6.4	1876
CRT		92	-2.1	2.4	3.6	Oct Jun	27.7	4041
Capita		472	5.8	5.4	2.9	Oct May	10.8	4948
Caskel		33½	—	0.8	5.0	Oct Mar	18.1	2877
Chiltern Capital A$		53	1.0	-	-	-	-	2588
Christie Group		28	—	-	-	-	8'90	5146
Chubb Security		277	10.4	2.8	2.9	Feb Aug	14.12	-
Comae		33	6.5	-	-	-	4'88	2194
Corp Servs		12½	35.1	-	-	-	-	4086
Dart		78	18.2	3.3	2.6	Aug Jan	30.11	1378
Davis Service		204	1.0	7.98	1.7	Jun Oct	21.9	2318
EW Fact		98	1.0	4.31	2.3	Nov May	5.10	1408
Gardiner		13½	3.8	1.3	2.2	Oct Apr	27.7	4887
Gardner DC		28	—	-	-	-	4'91	4901
Hays		242	-.8	4.6	2.1	May Nov	5.10	5377
Hogg Robinson		287	-2.0	6.3	2.1	Jan Aug	30.11	2806
Holmes Protect $		65	—	-	-	-	-	2811
Hutch Whmp HK$		158	4.7	088c	1.6	Dec May	12.5	2947
ISS B DKr		£110¼	-2.2	Q10%	6.6	May	1.5	5259

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING-AEROSPACE

ENGINEERING-GENERAL

ENGINEERING-GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

[illegible]

Net asset values supplied by NatWest Securities Limited as a guide only. See guide to London Share Service.

INVESTMENT COMPANIES

[illegible]

Net asset values supplied by NatWest Securities Limited as a guide only. See guide to London Share Service.

MEDIA

[illegible]

MERCHANT BANKS

[illegible]

METALS & METAL FORMING

[illegible]

MISCELLANEOUS

[illegible]

MOTORS

[illegible]

OIL & GAS

[illegible]

OIL & GAS - Cont.

[illegible]

OTHER FINANCIAL

[illegible]

OTHER INDUSTRIALS

[illegible]

PACKAGING, PAPER & PRINTING

[illegible]

PACKAGING, PAPER & PRINTING - Cont.

[illegible]

PROPERTY

[illegible]

STORES

[illegible]

TELEPHONE NETWORKS

[illegible]

TEXTILES

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

SOUTH AFRICANS

[illegible]

PLANTATIONS

[illegible]

MINES

[illegible]

MINES - Cont.

[illegible]

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- ¶ Price at time of suspension
- Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♦ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Not subject to ACT. z Dividend includes a special payment: Cover does not apply to special payment. E Auction basis. F Dividend based on prospectus or other official estimates for 1994-95. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1993. K Dividend based on prospectus or other official estimates for 1992-93. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1993-94. N Dividend based on prospectus or other official estimates for 1992. P Figures based on prospectus or other official estimates for 1994. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution

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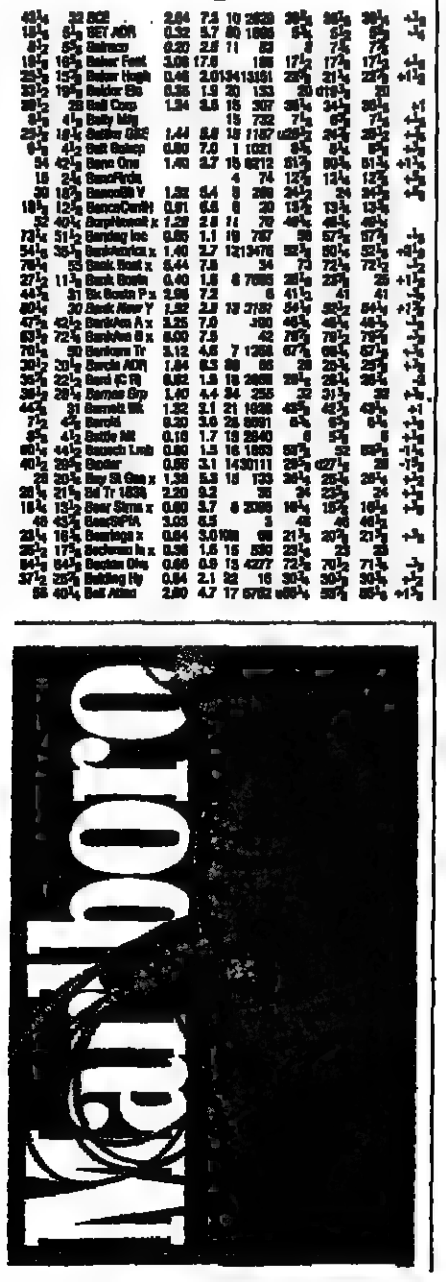
NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4 pm close February 19

1992/93 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
15⅞	10¾	AAR Corp	0.48	4.1	21	288	12⅛	11¾	11¾	-⅛
28½	16	A L Labs A	0.18	0.9	130	1043	22⅜	20½	20⅞	-1⅛
68¾	52⅞	AMP Inc	1.60	2.9	20	2009	55¾	55¼	55⅝	+⅛
80¼	54⅞	AMR				8 12388	57⅞	55½	55⅝	-1⅞
2⅞	1⅝	ARX			10	28	1⅝	1⅝	1⅝	
53½	29⅜	ASA x	2.00	5.6	23	540	36⅛	35⅞	35⅞	-⅛
34¼	24⅞	Abbott Lab	0.60	2.5	16	29440	25¼	24	24¼	+⅛
13⅞	10⅛	Abitibi Pr	0.50	4.5	3	22	11	10⅞	11	+⅛
11⅞	10¼	ACM Gvt In x	0.96	8.4		287	11⅜	11¼	11⅜	
10⅞	9	ACM GvOpp x	0.80	8.6		47	9⅜	9¼	9⅜	+⅛
9¾	8½	ACM Gvt Sp	0.80	8.6		201	9⅜	9¼	9¼	-⅛
11⅞	9⅞	ACM Gvt Sc	0.96	8.8		252	11	10⅞	10⅞	
10⅞	8⅞	ACM Man x	1.08	10.4		340	10⅜	10¼	10⅜	+⅛
12⅞	8⅞	ACM Managd x	0.78	8.4		233	9¼	9⅛	9¼	+⅛
11¼	4⅞	Acme Cleve	0.40	5.0	17	77	8	7¾	8	+⅛
9¼	3⅞	Acme Elect			780	16	7⅝	7½	7½	
33¼	12⅞	Acuson			11	628	13	d12⅞	12⅞	-⅛
21⅛	18⅛	Adams Expr x	0.48	2.3	1	116	20⅞	20⅜	20⅞	+⅛
50	29½	Ad Micro	3.00	5.9		175	u51	49⅞	50½	+1⅛
21½	7½	Ad Micro P	3.00	13.5	8	11671	u22⅜	21¼	22¼	+1⅛
9½	4⅞	Advest Grp	0.16	2.5	13	135	6⅜	6¼	6⅜	+⅛
45⅞	33	Aegon ADR	1.35	3.0	8	3	u45⅞	45⅞	45⅞	
53¼	38	Aetna Lf	2.76	6.0	13	2486	46½	45½	45⅞	-⅛
14½	8⅞	AHS A x	0.24	2.0	30	609	12⅛	11⅞	12⅛	+½
36½	24	Aflac x	0.44	1.3	16	2604	34¼	33¾	34¼	+⅛
22⅛	13	Ahmanson	0.88	4.4	9	2749	20	19⅛	19⅞	+⅛
22½	4	Aileen Inc			11	77	6¾	6½	6⅝	+⅛
49½	36½	Air Pr Chm	0.88	2.0	17	3494	42⅞	42¼	42¾	
29¾	12½	Airborne Frt x	0.30	1.4	176	1147	21⅛	20½	21⅛	+⅝
33¾	11¼	Airgas Inc			32	207	23⅝	22¾	23⅝	+⅛



Continued on next page

NYSE COMPOSITE PRICES

1992/93 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chg'e Prev. Close
Continued from previous page										
22⅝	14⅞	Roadick	0.24	1.1	16	68	21½	21⅜	21⅜	-¼
37	18	RussBerrie	0.70	2.7	5	615	25⅝	25	25⅝	+¼
40⅛	27⅞	Russell Cp	0.36	1.1	16	206	33¼	33	33	
32¼	19⅝	Ryder Syst	0.60	2.0	21	1662	30⅜	29¼	30⅛	+1
28	18	Ryland Grp	0.60	3.0	12	1380	20¼	19½	20¼	+⅝
- S -										
21	16⅞	S Anto Rd	1.36	6.8	27	147	20¼	20	20⅛	-½
20⅝	13¼	SCOR US Cp	0.28	1.4	17	6	20⅜	20¼	20¼	-⅛
28½	19	SPS Techno	1.28	5.4	17	120	24	22⅝	23⅝	+1⅜
15⅛	12¼	Sabine Rt x	1.75	9.4	10	49	19¼	19⅛	19¼	+⅛
11⅞	7¼	Safecard	0.10	1.0	14	108	10½	10⅜	10½	+⅛
23½	11⅜	Safeg'd Sc			10	60	20½	19¾	20½	+½
32¼	20⅞	SafetyKln	0.36	1.6	25	3606	21⅞	[illegible]	[illegible]	-1
30¼	9⅝	Safeway			14	1142	12¾	12⅛	12⅜	-⅜
4⅝	2	SafewayWPS				16	2½	2½	2½	+⅛
41⅞	29⅞	St.JoePaper	0.20	0.5	44	106	38⅞	38	38⅞	+¼
34⅛	28⅞	StJoeL&P	1.76	4.9	16	73	u35¾	34½	35¾	+1⅜
83¼	66½	St Paul's	2.80	3.5	20	404	80¼	79⅝	79⅝	-⅞
10	2⅞	Salant Crp			6	41	9	8⅞	9	+¼
76	45½	Sallie Mae	1.20	2.6	10	26344	50½	46⅛	46⅛	-⅞
14⅝	13	Salomon Br	0.61	4.4		2094	13¾	13⅝	13¾	+½
41⅞	26¾	SalomonInc	0.64	1.6	9	3412	40¼	39⅝	39⅝	+⅛
25½	21¼	SanDgo G&E	1.44	5.5	14	402	u26	25⅞	26	+½
4⅞	2⅛	SantaFeEDu	0.40	10.0	44	33	4⅛	[illegible]	4	
9⅞	7	SantaFeERs	0.16	1.7	137	482	u9⅞	9⅝	9⅝	
39¾	30¾	SantaFePac	2.80	7.4	13	31	37¾	37⅝	37¾	-⅛
15⅛	10⅝	SantaFeSth	0.10	0.7	40	3648	13¾	13½	13⅝	+⅛
32½	27	Sara Lee	0.58	2.1	21	3466	28⅝	27⅞	28	-⅛
44⅞	38⅝	Scana Corp	2.66	6.0	16	279	44½	44¼	44⅜	+⅛
47⅝	40¼	Scecorp	2.80	5.9	14	2137	d47⅞	47	47⅝	+⅝
39⅞	22⅛	ScheraRP			25	1003	30⅛	27½	27¾	-2⅞

AMEX COMPOSITE PRICES

4 pm close February 19

NASDAQ NATIONAL MARKET

4 pm close February 19

MONDAY INTERVIEW

Mogul with the most

American entrepreneur David Geffen talks to **Alan Friedman**

What is the definition of a renaissance man in 1990s America?

If the criteria were to include an extraordinary business acumen which ranges from founding and selling a company for half a billion dollars to making shrewd investments in commercial property, stocks and bonds – combined with a passion for the worlds of both modern art and national politics, and the ability to produce hit movies, records and Broadway shows – then David Geffen might just fit the bill.

The 50-year-old Mr Geffen made his first $1m in 1969 in the record business, and went on to reap more than $700m of cash profits when he sold his shareholding in the November 1990 takeover of the MCA/Universal entertainment group by Matsushita of Japan.

He has invested much of his money on Wall Street, effectively becoming Hollywood's version of Mr Warren Buffett, the billionaire investor who figured prominently in the rebuilding of Salomon Brothers last year.

Mr Geffen is one of the wealthiest entrepreneurs in the US, a consummate telephone schmoozer who moves almost effortlessly across sectors too disparate for most self-made men with net worths of more than $1bn.

Mr Geffen, whose preferred dress is a white T-shirt, jeans and tennis shoes, operates from a comfortable third floor office notable for its L-shaped sofa, absence of a desk and westward view along Hollywood's Sunset Boulevard. He spends an hour each day working out at one of the gyms he has installed in his houses on the beach at Malibu and New York's Fifth Avenue and in his Beverly Hills mansion.

"I am being what I want to be every day," he declares, clearly irritated by Hollywood speculation about what business venture he will next undertake. Amid the back-stabbing politics of Tinsel Town, Mr Geffen is one of the few individuals who garners nearly universal praise from studio heads and stars alike. The word most often used to describe him is "smart".

It is an adjective that might also be used to describe the handful of close friends who for years have chatted on the telephone with Mr Geffen almost daily. This inner circle includes Mr Barry Diller, the former chairman of Twentieth Century Fox; Mr Felix Rohatyn of Lazard Frères; Mr Jeffrey Katzenberg, who runs the Disney studio, and Mr Allen Grubman, the leading entertainment lawyer in America.

For Mr Geffen, contacts are everything. "His Rolodex has few rivals, in this town or anywhere," observes the chairman of a big Hollywood studio. "He is very tough in business, very direct. He is like a laser beam," says an old friend who prefers not to be named.

Mr Geffen was not born to wealth. He grew in Brooklyn, the son of the enterprising Mrs Batya Geffen, who supported the family by designing corsets and brassières and eventually became a landlord. The academic life was not for the young David Geffen, who dropped out of university and in 1964 went to work in the mailroom of the William Morris talent agency, where he met his friend Barry Diller.

By the late 1960s he discovered Laura Nyro, the folk singer. Acting as her manager and producer, he launched her career and made more than $1m. It was then a short hop to his successful backing of Linda Ronstadt, The Eagles, Joni Mitchell and many more stars.

In 1972 he sold his record label to Mr Steve Ross, the founder of Warner Communications. Mr Ross named Mr Geffen vice-chairman of Warner Brothers, the group's Hollywood studio, in 1975, but he was not comfortable in a corporate structure and soon left. A year later, when he was diagnosed as having cancer, he dropped out of the business world, only to return in 1980 when the cancer scare proved to have been a false alarm.

It was the founding of Geffen Records in 1980 that created an asset so valuable that it fetched $545m in stock when Geffen sold it to MCA a decade later. Eight months after that deal, at the end of 1990, MCA itself was sold, netting Mr Geffen $710m in cash.

Mr Geffen's activities since the MCA deal have been increasingly diversified. The one area he has rarely discussed, however, is his investment portfolio – and Wall Street. The portfolio now totals more than $750m.

"As an investor I have been averaging a 25 to 30 per cent annualised return since 1990," he says. "At first I was doing it with high-yield instruments, but in the past 12 months many of the bonds have been redeemed by the issuers, and I have transferred about $400m into equities."

Helayne Seidman

He's tough in business; he's like a laser beam

Over the past year Mr Geffen has bought big share stakes in companies such as Wells Fargo, the California bank whose stock has jumped by more than 50 per cent; American Express, of which the share price rose substantially after the resignation of Mr James Robinson, its chairman; and RJR Nabisco, the food and tobacco group.

PERSONAL FILE

- **1943** Born in New York.
- **1964** Began work in the mailroom of the William Morris talent agency.
- **1969** Sold share of Laura Nyro music business, making his first $1m.
- **1970** Launched Asylum Records.
- **1975** Vice-chairman of Warner Brothers studio.
- **1980** Launched Geffen Records.
- **1990** Sold Geffen for $545m in MCA stock; earned $710m when MCA was bought by Matsushita.
- **1991** Switched more than $400m from bonds to equities; net worth now more than $1bn

Mr Geffen considers it "a good thing" that institutional investors are taking a more active role in shaking up the top managements of US companies such as IBM, General Motors and American Express. He also reckons that "a great number of companies are trading at very reasonable prices", and says there are now "tremendous opportunities in the equities market".

In 1991 Mr Geffen showed Wall Street he was prepared to be a big-time corporate player when he teamed up with Bechtel Investments and Mr Richard Rainwater, the Texas investor, to make a $3bn bid for Executive Life, the failed insurance group. The bid was not accepted but Mr Geffen went on last year to help out his old friend Mr Calvin Klein, the fashion designer, buying a total of $61m of Klein's junk bonds for an estimated 50 to 60 cents on the dollar. "Those bonds will be retired by the end of February and replaced with bank debt that has a much lower interest cost," Mr Geffen discloses, although he will not reveal the substantial capital gain he is expected to make on them.

Paper profits are also likely for Mr Geffen in the art world. He says that over the past couple of years he has spent more than $50m buying the works of masters from the abstract expressionist era to early 1960s pop art. "I don't think of it as an investment, but as a pleasure." None the less he also reckons the art market will have turned around within the next year or so.

The other new focus of Mr Geffen's life is politics. An ardent supporter of Bill Clinton, Mr Geffen contributed more than $150,000 to the Democratic party last year. He was also among those at Mr Clinton's economic summit in Little Rock last autumn. "I found it very valuable. Both Bill and Hillary Clinton are very impressive and there is every reason to expect that a lot will happen in Washington that is valuable for this country."

Mr Geffen has not merely supported the new US president; he has also expanded his private foundation and has been giving away $5m to $8m each year to such causes as abortion rights, homelessness and Aids research. He donates to the foundation all his personal earnings from managing the record business now owned by MCA, the movies he makes and the Broadway shows he backs.

Mr Geffen has also broken new ground in Hollywood by publicly announcing his homosexuality. Last November 18, with 6,000 people packed into a Hollywood amphitheatre for a concert that raised $4m for Aids research, Mr Geffen was honoured for his contribution. Yes, he says, "there was a time in my life when I would have been uncomfortable getting up in front of 6,000 people and acknowledging I was gay. But this was intentional."

The only subject that makes Mr Geffen bristle is the way his Hollywood peers gossip about his next big deal. His response is direct: "I am running a record company, a big investment portfolio; I am financing Broadway shows and making movies such as the new production of M Butterfly with Jeremy Irons; and I am working with my foundation. Some people might think of that as enough activity."

A flawed drive for fairness

MICHAEL PROWSE
on
AMERICA

I was among the first to criticise Lord (then Mr Nigel) Lawson's 1987 Budget which sharply cut British top rates of tax. So I should be madly applauding President Bill Clinton's "soak the rich" economic package. Yet the crude emphasis on fairness – the selling of the plan as virtuous simply because the affluent are bearing most of the burden – leaves me cold. It is a bit of a cheek coming from Mr Clinton's elite economic team, many of whom got very rich during the now-despised 1980s.

Mr Clinton is demanding that the top 2 per cent of families – those with incomes of $200,000 or more – finance nearly 60 per cent of the total tax increase, which means increases averaging nearly $15,000 a year. The rest of the top 10 per cent face much lower but still stiff increases. The bottom 90 per cent is barely touched, with increases ranging from nil for families with incomes less than $30,000 to a few hundred dollars for the near-affluent.

The president is proving a marvellous salesman. Yet his cosy sessions with schoolchildren are beginning to get irritating. He projects the image of the "philosopher king" who knows everything, yet his depiction of the "greedy" 1980s is decidedly one-dimensional.

Mr Clinton argues that the sharp drop in top income tax rates – from 70 per cent to 28 per cent – was a boon for the wealthy. What he fails to mention is that the rate paid on the last dollar of income bears little relation to the overall tax burden.

The point about the tax reforms of the 1980s is that they balanced cuts in tax rates (which affect people's incentive to work or save) with restrictions on the loopholes and special concessions that favoured the wealthy.

The upshot was little change in "effective tax rates" – the ratio of all federal taxes (including social security contributions) to incomes. The poorest 20 per cent of families paid 8.5 per cent of their incomes in tax in 1991 compared with 8.4 per cent in 1980; the richest 20 per cent paid 26.8 per cent rather than 27.3 per cent. The very affluent did gain: the effective rate on the top 1 per cent fell to 28.9 per cent against 31.8 per cent in 1980, but the decline was modest relative to the plunge in the top marginal rate. The stability of effective rates reflected Democratic control of Congress.

The contribution of affluent families to total revenues actually rose substantially during the 1980s because their share of national pre-tax income rose sharply, more than compensating for the minor decline in their effective tax rates. The shift in pre-tax income shares partly reflected underlying trends such as a decline in the relative pay of unskilled workers but a behavioural response to lower tax rates was also a factor.

As Mr Clinton will shortly discover, the affluent have great discretion over how much income they chose to declare; if rates are high they may, for example, take pay in the form of untaxed fringe benefits. They can also choose how long and hard to work; if rates go up, the golf course becomes relatively more alluring. However distasteful it may seem, the big decline in top tax rates in the 1980s squeezed more, rather than less, tax dollars from the very rich.

Inequality statistics are not straightforward. The average income of the bottom 20 per cent has undeniably fallen in recent years. But the families falling into this category constantly change.

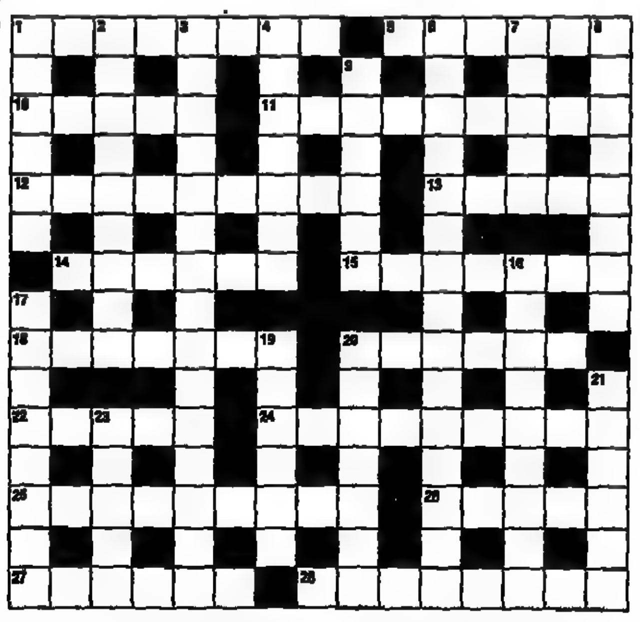
The Urban Institute, a Washington thinktank, tracked families that formed the bottom 20 per cent in 1977. Surprisingly their incomes had risen 77 per cent by 1986, reflecting the fact that nearly half had moved into higher income groups. The incomes of families in the top 20 per cent in 1977 rose only 5 per cent – half had dropped into lower income brackets over the same period. This mobility is not surprising: for example, when students leave college they move into higher income brackets whereas when senior executives retire they move down a few notches.

Taxes should be related to people's ability to pay. But the practicality of trying to raise so much revenue from the top 2 per cent is questionable, especially when the technique employed is a sharp increase in the top marginal rate from 31 per cent to about 45 per cent, allowing for the "millionaire's surcharge" (which applies to taxable incomes over $250,000), the lifting of caps on Medicare taxes and other changes. An attempt to broaden the tax base by eliminating perks, such as the deductibility of up to $1m in mortgage interest, would have made more economic sense.

The affluent have never paid particularly high effective rates of tax, if only because they can afford the best legal advice. Historically, high top rates were mainly a cover for lower, but substantial, tax increases on more numerous middle income families. But Mr Clinton has blown this opportunity; he is demanding so little from middle income groups that he lacks the resources both to increase public investment and decisively reduce the budget deficit, which is expected to be still nearly 3 per cent of national income in 1997. If, as is likely, revenues from the affluent prove disappointing, his "fairness" drive will have been entirely in vain.

CROSSWORD

No.8,083 Set by DANTE



ACROSS

1 Put around by the perimeter (8)
5 Two bills I stuck on a tree (6)
10 Intends to make money (5)
11 Water supply exhausted but not squandered (4,5)
12 Together once (2,3,4)
13 A spot of refreshment (5)
14 Ancient S. Americans head east as a precaution (2,4)
15 Find fee appropriate to Turkish official (7)
18 Apply for directions to one's house (7)
20 Support troops? (6)
22 Bravely built shelter (5)
24 Chief melody of a sea shanty? (4,5)
25 Maine's not to be confused with this state (9)
26 Restrictions for members in clubs (5)
27 Turns out to have a game on board (6)
28 He wrote comedies many never go out to see (8)

DOWN

1 Keen old bird in mountainous surroundings (6)
2 Bare and/or nude, perhaps (9)
3 A cure for despair? (9,6)
4 Redskin's whip? (7)
6 Strip, on the floor of the dressing room after the match? (4,3,8)
7 They man ships for a voyage, we hear (5)
8 It turns its back in a curve, in an aesthetic way (8)
9 Uncover swindle (6)
16 What a pop-singer hopes to achieve for himself (6,3)
17 Hobbies make time pass (8)
19 Sign of status? (6)
20 Elegance given a trial in US city (7)
21 He deals with the letter S in general (6)
23 Disciplinary panel, perhaps (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday March 6.

The domestic president

IAN DAVIDSON
on
EUROPE

The most significant fact about President Clinton's state of the union address is what it did not say. We all know it was mainly devoted to a detailed economic programme for tackling the budget deficit; some people even think the programme looks plausible. What has been less noticed is that this economic programme was *almost* the only subject in the speech. There was virtually no reference to the international scene, and certainly nothing to suggest that President Clinton has a foreign policy, or even feels the need of one.

This would be consistent with Mr Clinton's campaign rhetoric, but it is a remarkable break with tradition.

It is instructive to glance back at Mr Clinton's predecessors, and at what each of them said in his first state of the union speech. It turns out that almost all of them, going back as far as the second world war, devoted considerable time to foreign policy. As you would expect, George Bush went on at length about the international scene – Panama, Poland, East Germany, and the European allies. Ronald Reagan expatiated on nuclear arms control with the Soviet Union, Star Wars, Nicaragua and Afghanistan, not to mention the European allies.

Jimmy Carter talked about a new international order, human rights, nuclear arms control, Middle East, Poland, and the European allies. Gerald Ford delivered a long section on international relations, including communist countries, nuclear arms control, the developing world, and the European allies. Richard Nixon spoke of the Vietnam War, the Soviet Union, nuclear arms control and the European allies. President Johnson talked about disarmament, east-west relations, and the European allies. John Kennedy spoke of Vietnam, the Congo, the Soviet Union and China, and the European allies. President Eisenhower talked of defence, the Korean War, and the European allies.

President Clinton's was quite different. In two brief paragraphs he makes perfunctory nods in the direction of the generalities of America's traditional aspirations as a great power; but the passage contains not a single specific. The US needs a restructured defence to deal with new threats of the post-cold war world; the US has responsibilities as the world's only superpower; the US must be prepared to lead a world challenged by ethnic conflict, by proliferation of weapons, by the global environment.

But there is no hint of what are the real foreign policy objectives of the new administration. Nor is there any mention of a single foreign country by name. In particular, there is no reference, direct or indirect, to the European allies.

To find a general US policy declaration which is as domestic as this, you have to go back to Harry Truman in 1945. There may be a reason for the similarity. Truman was bringing the boys home from a world war; Clinton has probably grasped, and welcomed, the implications of the end of the cold war. Foreign policy is expensive. In wartime it is an essential ingredient of government. But in peacetime you do not need so much of it.

The optional characteristic of foreign policy in peacetime is particularly applicable to the US, because it is now virtually invulnerable to aggression. During the cold war America was in permanent danger because of the nuclear confrontation in Europe. Today that threat has almost vanished. America's European allies face new and serious risks of conflict, including those in the former Yugoslavia and the disintegrating Russian empire. But these risks need not affect the US, unless the US chooses; and if Mr Clinton has his way, the US will not choose.

Some will object that the actions of the new administration already belie its words. President Clinton may prefer to stay at home; but in practice he has been goaded willy-nilly into taking the leadership of the Euro-UN peace process for Bosnia. The world needs America to lead, so President Clinton is obliged to do his duty.

The world is being taken in by a public relations exercise. True, President Clinton could not categorically turn down the pressing pleas of the Owen-Vance mediators; but he agreed to take part only on terms which virtually guarantee to stalemate the peace process.

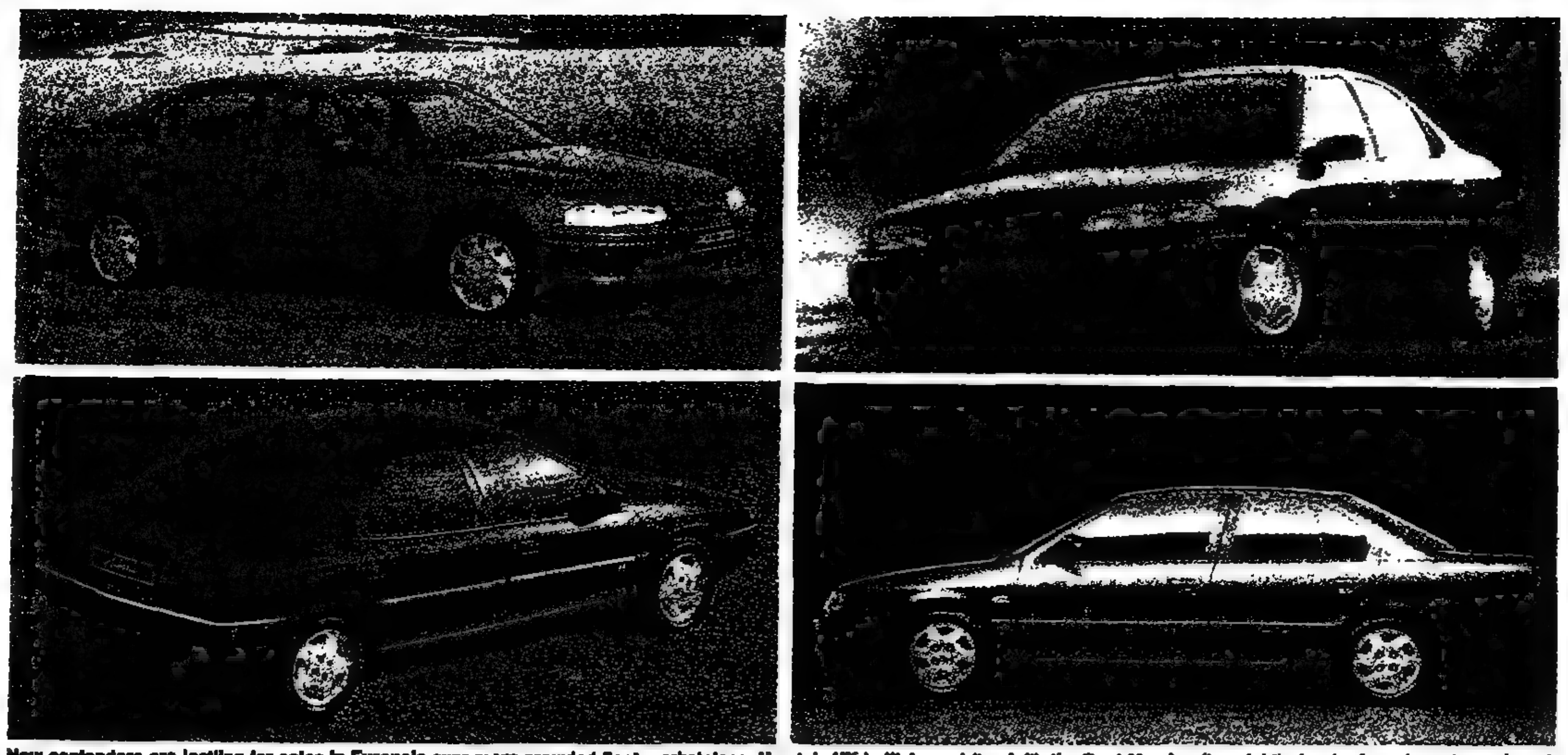
When the US says it might, after all, be prepared to use force in Bosnia, the world is impressed and relieved. The small print tells a different story. The US will use force only to back up an agreement, but no such agreement is in sight. The US will support a peace plan, but not the Vance-Owen peace plan. Yet Vance-Owen set the agenda for all other plans. Vance-Owen would require the Serbs to surrender much of the territory they have captured. Any different plan should in justice require them to surrender even more. But Washington's first step has been to submit the Bosnia peace process to the Russians, who are Serbia's most powerful allies.

In short, the Washington shift probably reduces the (already minimal) chance that the peace process could lead to an agreement which might be enforced. What we have instead is US "leadership", because that is what the rest of the world demands, but it is the kind of leadership which is designed to lead nowhere.

Europe will have cause to reflect that it does not rate a mention in President Clinton's first state of the union speech. Already under Bush it was clear that the US did not intend to take responsibility for Europe's new disorders, let alone for the peaceful reconstruction of the ex-Soviet empire. We may now need to come to terms with the idea that Mr Clinton really does intend to put the US economy first, second and third.

VEHICLE FLEET MANAGEMENT

 Monday February 22 1993



New contenders are jostling for sales in Europe's ever more crowded fleet marketplace: Honda's UK-built Accord (top left), the Ford Mondeo (top right), due for launch next month and replacing the Sierra; Nissan's Primera (bottom right) which is already winning fleet orders, and the just-launched Citroën Xantia, output of which is now gathering pace

Lure of a buyer's market

For UK carmakers, fleet sales are vital. But the new tax regime may lead more companies to offer employees a cash alternative to a car, writes John Griffiths

IN THEORY at least, the savagery of the current recession has provided an opportunity for vehicle fleet managers to adopt the mantle of heroes – slayers of waste on behalf of a corporate sector in distress.

Reality, in an unnerving number of cases, is somewhat different. According to one influential annual survey of the fleet policies of nearly 600 UK companies, the harsher economic climate has had no noticeable effect in terms of tightening the financial disciplines applied to company fleets, in particular those where cars are provided primarily as "perks".

Nearly one in three companies is still not even monitoring the operating costs of its car fleet, according to the current Company Secretary's Review of Company Car schemes*. Only 54 per cent of companies surveyed kept detailed records of the running cost of each vehicle.

As might be expected, there is a considerable difference between the controls exercised by small companies, with their limited resources, and large ones: 69 per cent of companies running a fleet of 100-plus vehicles kept detailed records on each vehicle. But if the survey's findings reflect approximately the UK picture overall – and there is no reason to suppose that they do not – that still means that nearly one in three of these larger companies has no proper idea of its fleet costs.

There is evidence, however, that the sector as a whole has started to become more sensitive to fleet costs, even if in some cases its attempts to control them have proved counter-productive. In that category, for example, comes the retention of vehicles to an age and mileage where maintenance and repair costs become excessive and where their unreliability potentially impairs the effectiveness of employees.

There has been no lack of initiatives from vehicle makers to persuade business car users to sign fresh orders. With most large continental new car markets turning down, Ford, Rover, and General Motors through its Vauxhall subsidiary, as well as other key players such as Peugeot, have been doing their utmost to encourage and capitalise on faint stirrings of recovery in the UK economy.

The UK business car sector is exceptionally important to them. Britain rivals Germany as Europe's leading market in terms of the number of business-funded cars on the road – more than 3m – but it outranks Germany in terms of company car sales as a proportion of the total.

"Fleet" sales – defined as sales made to companies operating 25 cars or more – accounted for nearly 42 per cent of total new car sales in the UK last year. Add on sales to smaller fleets and cars bought for business but registered in the name of individuals, such as architects and lawyers, and most estimates put the total at between 65 and 70 per cent.

For UK market leader Ford, even though it substantially reduced its unprofitable sales to the big car rental companies last year, fleet sales alone accounted for more than half its total. Two out of every three Vauxhalls sold went to the 25-plus fleets.

Even so, after several "false dawns" of sales recovery last year, the total new car market reached only 1.59m units – 700,000 less than in the record year of 1989. That was after the removal, in two stages, of the 10 per cent Special Car Tax against which manufacturers had lobbied for more than a decade. Against that background – with car plants on short-time working, tens of thousands of jobs lost and the collapse of Leyland DAF and AWD in the commercial vehicle sector – fleet managers may justly consider themselves in a buyer's market.

Indeed, the competitive screw is about to tighten further. At the end of last year, the first cars began emerging from Toyota's new car plant at Burnaston, Derbyshire, and from Honda's at Swindon in Wiltshire. By the mid- to late 1990s, these plants will be adding at least 300,000 units to UK car output, in addition to well over 200,000 a year from Nissan's plant at Sunderland.

All three Japanese manufacturers know that to achieve long-term success in the UK they must establish a firm fleet presence, and have set up marketing divisions specifically to cater to the sector. For Nissan, which last year took over its UK distribution operations following the rupture of its ties with Mr Octav Botnar, the efforts have already begun to bear fruit: nearly 11,000 of its sales last year were to the 25-plus fleet sector, or nearly 15 per cent of its total.

Surveys of companies' fleet policies show that what was once an entrenched hostility by British companies towards putting Japanese-badged cars on their fleets is now rapidly crumbling.

According to this year's Monks Partnership guide to company car policies†, 65 per cent of the 200 companies it surveyed (72 of them with £500m-plus turnover) now have Japanese cars manufactured in the UK on their "approved" company car lists. Even cars produced in Japan or elsewhere outside Europe are approved by 47 per cent of such companies. The figures are only slightly less – 50 per cent and 38 per cent respectively – among smaller companies.

Thus when the Mondeo, the medium car range replacing the Sierra, on which Ford claims to have spent £4bn, hits the marketplace next month as its first "world" car, even Mr Ian McAllister, the Ford of Britain chairman, acknowledges that the days when a new product from Ford would sweep all before it are now over. Nevertheless, the Mondeo stands a good chance of becoming the market leader in its sector.

However, it will be fighting for a place in the market among many more rivals than when the Sierra was launched more than a decade ago, and rival manufacturers will not meekly give way.

Thus there is little prospect of an end to the deep discounting that is now endemic in the motor trade. The scope of this discounting is also apparent in the Company Secretary's Review. Fleet managers report mean discounts of around 15 per cent on mainstream fleet cars, and even the executive sector "specialist" companies like BMW and Mercedes are not immune, with the survey finding mean discounts of 5-10 per cent, depending on model.

Despite such discounts, and the seemingly contradictory lack of effective monitoring of operating costs by many companies, all the signs are of continuing caution by fleet managers towards new car purchases. Thus Mr McAllister expects at best a 10 per cent recovery this year, a view shared by most other industry leaders.

Yet there are special reasons why the outlook for the fleet sector is uncertain. Not least, many fleet managers want to know the final form of the revised taxation regime for company cars and their users. Mr Norman Lamont, the chancellor, is expected to shed more light on its detail and the timing for its introduction in his budget speech next month. It is expected closely to follow outline proposals unveiled late last year, and to equate taxation levels solely to new vehicle price.

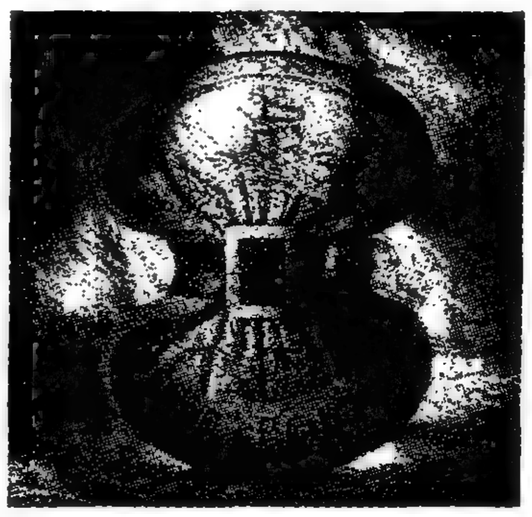
Once the detail is known, companies will have a much better idea whether the time is appropriate, as a growing number appear to think, to offer their employees a cash alternative to a car, thus allowing them to disengage from the risks and complexities of running a fleet. An obstacle to such a switch was removed last year, when the courts ruled that no VAT should be levied on cash offered in lieu of a car – for uncertainty on that point had acted as a brake on "cash-for-car schemes".

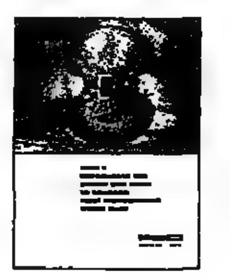
Overcoming another brake on such schemes – that surveys show a strong desire by most employees to keep their company cars at almost any price – is another matter altogether.

*The Company Secretary's Review, Survey of Company Car Schemes 1992-93. Tolley Publishing Company, Tolley House, 2 Addiscombe Road, Croydon, Surrey CR9 5AF.
†Company Car Policy UK 1993, from Monks Partnership Ltd., Debden Green, Saffron Walden, Essex CB11 3LX. £150

IN THIS SURVEY

Editorial production *Gabriel Bowman*





Drivers on business face a new regime, writes John Griffiths

Wait for the tax changes

IN his budget speech next month Mr Norman Lamont, the chancellor, is expected to indicate the extent to which the Inland Revenue's proposals for the reform of company car taxation, first outlined last summer, have been amended by criticism invited from the motor industry and other interested parties.

The legislation to implement the revised tax regime will then be introduced in this year's Finance Act. But such are the complexities of change – to PAYE systems, car makers' production and marketing strategies, for example – that there will almost certainly be no attempt to introduce the changes before the start of the 1994-95 tax year. If the switch-over seems likely to cause more complications than expected, it could even be postponed until later.

Despite, or perhaps because of, the wide range of responses to and criticisms of the Revenue's draft, there appear few signs that there will be significant departures from the scheme as originally proposed.

The Revenue has declared four principal aims in restructuring the way personal taxation of the company car benefit is assessed: greater fairness, reduced distortion of the new car market caused by manufacturers producing "tax break specials" within the current price and engine capacity "banding" system, to promote fuel efficiency and to simplify the administration of company car taxation.

Central to the Revenue's proposed new regime are a dozen new bands, based wholly on price and stretching up to £80,000. The current regime, which the Revenue itself has described as outdated and crude, has only two price thresholds, of £19,250 and £29,000, above which the assessed tax benefit to the user rises sharply.

These, however, currently are assessed in combination with three engine capacity bands, of under 1.4 litres, 1.4-2 litres and over 2 litres. One of the long-standing criticism of these capacity bands is that they do not differentiate between petrol and much less powerful but more economical diesel engines, which require more cubic capacity for a given level of performance.

The proposals favour using the manufacturer's list price as the basis for the bandings, but leave open actual cost to purchasers after discounts, and estimates of original market value for a particular category of car, as alternatives.

The Revenue has done its own calculations about the expected effect on some 2m company car drivers and asserts that 1.2m drivers would benefit from the revised structure, with their tax bills falling by up to 25 per cent.

However, it also acknowledges that there would be 700,000 losers. About 500,000 of these, with cars currently in the £13,000-£15,000 bracket, would be less than 10 per cent worse off. But about 200,000 drivers of high specification cars with prices just under the current two "break" points face a 40 per cent tax rise.

Launching the proposed scheme, Mr Stephen Dorrell, financial secretary to the Treasury, said that it was designed to end the unfair situation whereby, for example, the presumably low-paid driver of a basic 1.8 litre Ford Fiesta diesel, using mainly for business, paid the same tax as the driver of a Mercedes 190 for equivalent business mileages.

CAR BENEFIT SCALE CHARGES 1992-93				
Original market value	Engine size (cc)	High business mileage (18,000 miles or more)	Average business mileage (2,501 to 17,999 miles)	Low business mileage (2,500 miles or less)
Cars under four years old				
Up to £19,250	0-1400	£1,070	£2,140	£3,210
Up to £19,250	1401-2000	£1,385	£2,770	£4,155
Up to £19,250	2001+	£2,220	£4,440	£6,660
£19,251 to £29,000	All	£2,875	£5,750	£8,625
Over £29,000	All	£4,650	£9,300	£13,950
Cars over four years old				
Up to £19,250	0-1400	£730	£1,460	£2,190
Up to £19,250	1401-2000	£940	£1,880	£2,820
Up to £19,250	2001+	£1,490	£2,980	£4,470
£19,251 to £29,000	All	£1,935	£3,870	£5,805
Over £29,000	All	£3,085	£6,170	£9,255

Source: Inland Revenue

What the new regime apparently does not seek to do is increase the total tax burden by more than the current scheme would impose in the normal course of annual adjustments.

In a foreword to the proposals, Mr Lamont signalled that the swingeing annual increases in scale charges that have quadrupled tax payable by company car users in less than a decade are at an end: "The government recognises that company cars are an important feature of modern business life and of the UK car industry, and make a significant contribution to the Exchequer."

While not spelling it out precisely, Mr Lamont indicated that, in the government's view, company cars are now just about tax neutral – neither encouraging nor discouraging their provision. Currently, the Exchequer's receipts from the tax are around £1.4bn.

The proposed dozen price bands are: under £5,000, £5,000-£6,499, £6,500-£7,999, £8,000-£9,999, £10,000-£12,499, £12,500-£15,499, £15,500-£19,499, £19,500-£24,499, £24,500-£30,999, £31,000-£38,999, £39,000-£49,999, £50,000-£62,500, and over £62,500. The advantage seen in this successively wider banding is that it would be particularly sensitive in the £10,000-£19,500 region where company cars are concentrated.

To generate the same revenue yield as the present system, the proposals suggest a scale representing two-ninths of a car's value for drivers covering 2,500-18,000 business miles a year, one third for low-mileage (below 2,500 miles) users and only one-ninth for those covering more than 18,000 business miles a year. The document proposes no changes to the business mileage bands, despite widespread criticism that essential car users are heavily penalised if they do not cover more than 18,000 business miles.

Cars now costing between £19,250 and £29,000 would be split into two bands. The 60,000 cars in the lower half of the current band would have the tax charge cut by 15 per cent on average. In the case of cars costing more than £24,500 – affecting about 20,000 – the drivers would be modest losers.

For the most expensive cars, priced now at more than £29,000, those at the bottom of the range – up to £39,000 – would have a tax charge reduced by more than 30 per cent. This would benefit companies such as Jaguar.

Above £39,000, the tax charge would rise by 35 per cent for cars costing between £50,000 and £60,000.

By using the price mechanism more strongly, the scheme also aims to encourage the use of more economical cars. In that context, the regime, if adopted largely unchanged, should give a significant boost to diesel cars.

The administrative argument in favour of the Revenue's proposals is widely seen as a strong one. Whereas, at budget time each year, car makers and fleet users alike have traditionally waited on tenterhooks for the revised scale charges in each Budget, to assess the likely impact on both car users and car sales, the Revenue's proposed new system would be broadly self-correcting. Each year, cars could be expected to drift up through the price bands, depending on prevailing rates of inflation.

Industry's reaction to the Inland Revenue's proposals

Market 'will still be distorted'

THE Inland Revenue's proposed new company car tax regime has met with a chorus of criticism. At least one accountancy group has warned that "there will be considerably more losers than winners" if it is adopted unchanged.

Critics include the Society of Motor Manufacturers and Traders. In a formal submission, it voices "profound" opposition to the Revenue's proposed retention of price banding as a means of assessing the tax benefit payable on the personal use of company cars.

The SMMT argues that any new regime should be based solely on a fixed percentage of list prices, with the exception of very expensive makes such as Rolls-Royce and Aston Martin, whose manufacturers could be severely disadvantaged by a wholly *pro rata* scheme.

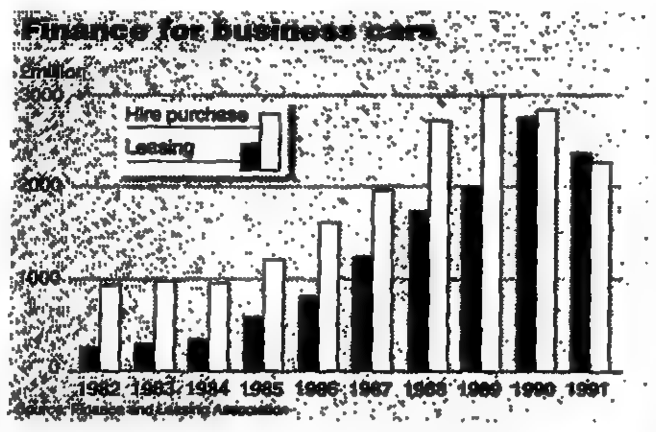
At the heart of its opposition is its belief that any form of price banding will lead to market bunching of manufacturers' models at around the price "break points", thus perpetuating – even if to a reduced degree – market distortions already complained of by the Monopolies and Mergers Commission.

Despite the SMMT's stance, a survey of company car operators undertaken during a series of Association of Car Fleet Operators "roadshows" late last year revealed users, at least, divided. Some 50 per cent of those surveyed favoured a more sophisticated banding system but almost as many – 42 per cent – backed a straightforward percentage system.

ACFO is a powerful voice in the sector, founded some 20 years ago and now with about 500 member organisations operating some 450,000 cars and light commercial vehicles.

But the diversity of views expressed by its membership makes it all the more likely that changes to the scheme as proposed by the Revenue itself are unlikely to be significant.

There were, however, some broad areas of consensus:
- that published list prices, rather than actual cost to buyer or other yardsticks, should be used as the basis for calculating tax;
- that most users are believed already to be over-taxed – Mr Lamont's claims to tax neutrality notwithstanding – and that no more than 20 per cent of list price should be used to assess the level of tax liability;
- and most significantly, that the Revenue had done the entire sector a disservice by not allowing business mileage thresholds into the consultation process.



The question of mileage thresholds is one of the thorniest in the entire debate. ACFO describes many of its members as being "incredulous" that it should not be up for review.

Mr Stewart Whyte, ACFO's spokesman and a director of the Fleet Audits consultancy group, declares: "Without addressing this issue, the review can be at best half-hearted. The current system of mileage adjustments is hopelessly anomalous and is widely accepted as generating a great deal of unnecessary business mileage just to exceed the thresholds."

The thresholds are under 2,500 business miles; 2,500-18,000 and over 18,000. At each threshold, the assessed tax payable is halved to reflect a perceived progression from "perk" to essential car user.

Mr Whyte's argument, endorsed across much of the fleet sector, is that not only does the system waste fuel and company time and resources – through drivers inventing business trips merely to lower their personal tax bills – but it is arbitrary in making no allowances for differences in industry, operating patterns or territorial factors.

Fleet Audits has put in its own submission to the government, advocating a sliding scale charge based on the ratio of private mileage to business mileage as an indicator of whether a car is a "perk" or essential for business.

Under these proposals, if less than 5 per cent of total mileage was private, no scale charges should be incurred as the vehicle would clearly confer no tangible private use benefit. Between 6 and 35 per cent, 50 per cent of the scale charge is proposed, rising to 130 per cent where more than 85 per cent of a car's mileage is private.

Like other organisations which reacted to the Revenue's request for criticism, the company must wait until next month to find out whether any elements of its proposal have been taken on board.

At least on the broad mileage issue it is in accord with the British Vehicle Rental and Leasing Association, which claims that its industry currently buys 25 per cent of all new vehicles sold in the UK.

The BVRLA, too, has expressed considerable concern that there is no apparent intention to change the 2,500 and 18,000-mile thresholds.

It, too, disputes the government's assertion that the current scale charges "have moved much closer to realistic levels", claiming that they are now well in excess of the amounts required to cover average private use of a typical car.

Like the SMMT, however, the BVRLA advocates a scale charge structure based wholly on the published retail price of cars, and opposes the retention of the price banding concept retained in the Revenue proposals. It supports the SMMT that even the new system would "inevitably lead to distortions and bunching below the price break points and continue to perpetuate some of the anomalies in the present system.

"It is the BVRLA's majority view that a simple percentage of list price would avoid any unfairness at the top and bottom of the band and would avoid the distortions experienced with the current system."

Among other critics, Mr Brian Friedman, managing director of Stoy Benefit Consulting, echoes the concern felt by many manufacturers that the drivers who will be hardest hit – senior executives driving the most expensive cars – are user-choosers who will simply opt for cheaper vehicles. "The logical result will be a general downsizing of company cars."

The Automobile Association insists that the Revenue's proposals are "unrealistic", unfair, will encourage inefficient, high-mileage driving and do nothing to correct what it sees as distortions in the new car market.

According to Mr Simon Dyer, its director-general, "work cars should be taxed on one factor alone: the actual value of the private benefit to the employee.

"This should be calculated on the cost to the employer of providing the car, and the number of private miles driven annually."

John Griffiths

THE CASH OPTION

Threat to the company car

AS recession has deepened, unemployment has climbed and the personal tax burden on company cars has risen further, the survival of the company car as an integral part of the business scene has become more than an academic question, writes John Griffiths.

According to this year's annual Company Secretary's Review of company car policies, which monitors the fleet activities of nearly 600 UK companies, more than half of the companies surveyed are considering offering a financial alternative to the company car, although relatively few expect to act before the fine detail of the Inland Revenue's revised taxation of company cars can be properly digested.

Significantly for vehicle makers in particular – because of the high business car content of their sales – the Review research showed that the "cash-for-cars" option is being considered by 60 per cent of companies operating larger fleets, of 50 cars or more.

The evidence of a strengthening "cash-for-cars" trend is not quite so conclusive in another prominent company car policy survey, conducted by the Monks Partnership.

Its research shows that 20 per cent of the 200 companies it surveyed had instituted a cash alternative, but that it appeared to be unpopular with employees. Only around one in 10 had taken it up.

Nevertheless, Monks' finding that another 20 per cent of companies may change their policies this year and are also considering a cash option does indicate that a much closer evaluation of company cars is now on the corporate agenda.

Mr Simon Rodwell, a director of Monks Partnership, is convinced that companies are holding back until the taxation uncertainties are resolved. "If higher priced cars were to be more heavily taxed under any new rules, this might make a cash alternative more attractive which, in turn, could affect a company's attitude towards the design of its cash allowance scheme."

Companies which have already made the switch include a number in the financial sector, such as J.P. Morgan and Bankers Trust.

Others have studied the issue closely but have opted to retain their cars and subject them to much tighter purchase and operating controls.

There is even a very small minority which has simply withdrawn its cars and offered only partial or nil compensation. But these have tended to be companies fighting off receivership.

During the 1980s boom years of jobs chasing scarce skills, such debate as there had been about "cash-for-cars" tended to focus on whether it might benefit employees whose cars were primarily a "perk" and part of their remuneration package.

Now, with employers not only ravaged by recession but also having to pay, for the first time last year, National Insurance contributions on their employees' benefit for the private use of their cars, the issue is being examined from the viewpoint of potential cost savings to the company.

Because company cars are embedded in the UK business culture, the cash-v-car assessment cannot be wholly financial. Employees place an obvious non-monetary value on them as tokens of status and esteem within a company;

They also, surveys show, value the "no-hassle" aspects of their company cars, such as not having to worry about maintenance bills.

Factors such as these help explain the decision of National Westminster Bank, which operates a widely-varied fleet of 11,500 cars, to reject the cash alternative and simply to operate the fleet more cost-effectively.

According to NatWest's Mr Allan Robertson, "despite rises in taxation, most managers, if offered cash representing the true time cost of a car to a company would be worse off if they had to provide themselves with a car: Yet in most instances companies will not even offer what it costs them to provide a car."

NatWest's approved list of manufacturers has been cut from 29 to seven and its fleet controllers themselves specify the cars and level of equipment, based on whole-life cost. Replacement takes place only when market conditions are favourable. When a car is disposed of, it still usually goes to auction but NatWest sets the reserve. Employees who have failed to take care of a car can face disciplinary action. Diesels are being introduced without the option.

In the first 18 months of the new regime, Mr Peter Parkinson, head of group vehicle purchasing, claims to have made savings of £1,750 a vehicle – or £20m in all and big savings continue to be made.

Contract hire gets short shrift. "Would you hand over your wallet or purse to a contractor who is trying to make a profit from you?" he asks.

There are other potential pitfalls. For instance, one executive was an essential car user in frequent contact with his company's customers. He took a cash option for his middle management car and bought an elderly Ford Escort for which he claimed over 18,000 miles of company reimbursed mileage – at 40p a mile.

That is why Midland Bank, for example, insists that employees covering 18,000 or more business miles a year must have a company car, while offering lower mileage employees a cash option.

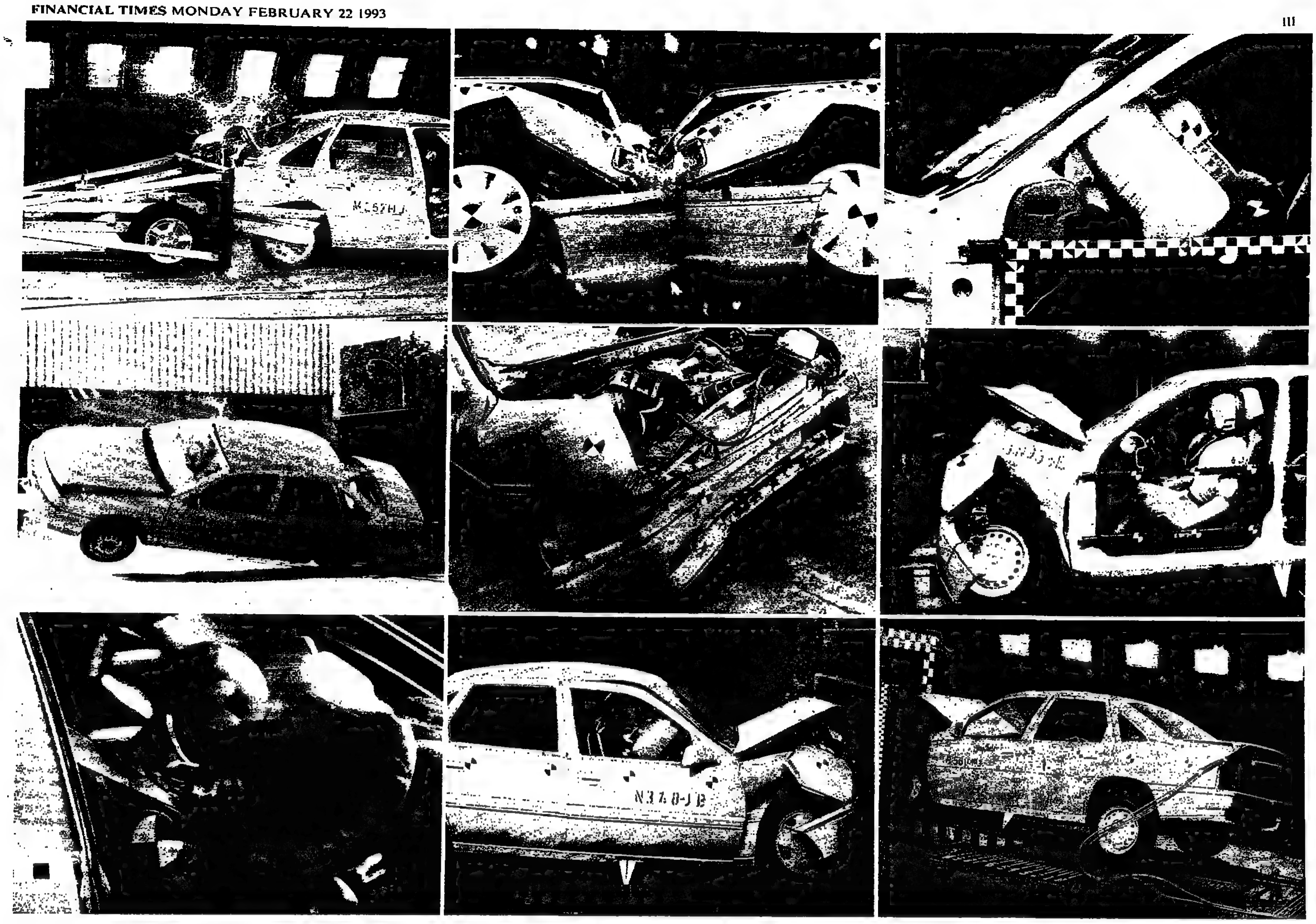
Fleet managers are starting to learn to their cost that the closer they look at the cash-v-car issue, the more complications seem to arise. Another recent one, arising from soaring car thefts and so-called "joyriding", is the rise into four figures of the typical premium for the GTis of young City executives.

Factors such as these do so much to complicate the efforts of fleet management analysts to come up with a relatively simple formula by which the cash versus car benefit can be calculated.

However, Mr Clive Tulloch, a partner of Coopers and Lybrand, argues: "If the cash is an alternative which the employee can choose instead of a car, it need not be set at a generous level, especially if the purpose is to provide an alternative to the car for those for whom the car is an expensive option. If cash is an option which employees are free to ignore if they wish it could simple be set at a figure which does not increase the employer's cost."

If a mandatory cash scheme were introduced for all employees it would theoretically require – because of mileage and other factors – that different amounts should be paid to those who had been provided with the same level of company car.

In practice, however, employers would be likely to offer the same cash sum to all employees who had operated similar cars. And since that would create winners and losers, the overall cost would rise as a result of the company's understandable desire to minimise – for morale and associated reasons – the number of "losers".



THE NEW VAUXHALL CAVALIER. NOW IT'S CRUNCH TIME FOR THE COMPETITION.

Here's the first body-blow to the Vauxhall Cavalier's competition.

The Cavalier is now even better.

A few of the changes we've made, the competition might have expected.

Like the new front and rear body-colour bumpers. The new bootlid panel. The new, sleeker-looking head-lights. The new trims. The three new colours. The new body-colour grille.

And, on many Cavaliers, the new alloy wheels. But what the competition will certainly not have anticipated, and which might well put them in a state of shock, are the remarkable new safety improvements which make the Cavalier as much a cocoon as a car.

Every Cavalier comes equipped with a driver's side, full-sized airbag available as standard. Full-sized you'll notice and not the smaller, so-called 'Euro-bag' favoured by the competition.

It's a safety device designed to significantly lessen the impact on a body hitting the steering wheel during an accident. By cushioning a large area of the chest, it greatly reduces the risk of fractured ribs and other chest injuries.

Every Cavalier also comes equipped with new twin side-impact protection bars in all doors. The bars greatly reduce the risk of injury in the event of a side-impact. And a steel safety cage and reinforced B-pillar are there to increase protection still further.

Also standard on every Cavalier are 'bodylock' front seat-belt tensioners. Tests have shown that these tensioners can reduce the severity of head and chest injuries by as much as 20%.

The ABS (Anti-lock Braking System) is now standard on most Cavaliers.

These, and many other advantages, make the Cavalier one of the safest and the most stylish cars in its class.

And with 3 new engines (including the 2·5 litre narrow-angle 24-valve V6* and the 2-litre Turbo) you'll find absolutely nothing lacking in the Cavalier's performance. Indeed, you might care to know that, in the 1992 Esso RAC British Touring Car Championship, the Vauxhall Cavalier 16-valve walked off with both the Team Championship and the Manufacturers' Championship.

Now isn't that the final body-blow to the Cavalier's competition?

For more information on the new Cavalier and Choices 1+2+3, the smart way to drive a new Vauxhall, call 0800 444 200.

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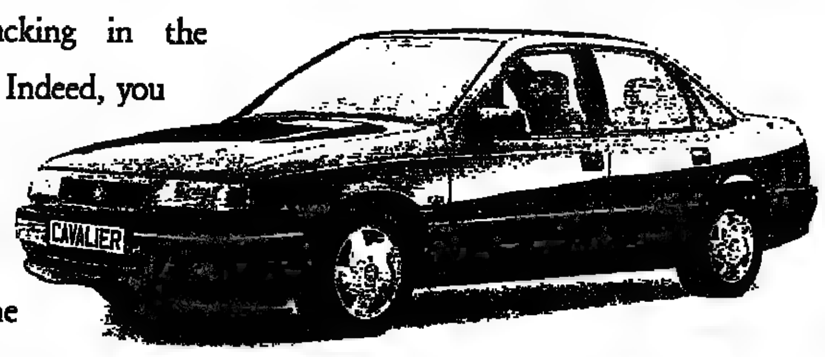


CAR SHOWN IS CAVALIER CD 2.0i. PRICE [illegible]. PRICE CORRECT AT TIME OF GOING TO PRESS INCLUDES VAT BUT EXCLUDES VAUXHALL'S RECOMMENDED ON THE ROAD PACKAGE OF [illegible] FOR NUMBER PLATES AND DELIVERY. ABS STANDARD ON 4x4 UPWARDS AND OPTIONAL ON ALL REMAINING MODELS. *AVAILABLE IN MARCH. FOR YOUR LITERATURE REQUIREMENTS PLEASE CALL 0800 444 200 OR VISIT YOUR LOCAL VAUXHALL DEALER.

EUROPEAN TRENDS

Leasing still faces frontiers

THE UK's vehicle leasing industry is the EC's most developed and sophisticated by a significant degree, so the advent of the single market in Europe presents unparalleled opportunities.

The removal of trade barriers should lead to a growth in business and leisure travel and an increase in the pan-European movement of labour.

According to Mr Freddie Aldous, president of the European Car and Truck Rental Association, "for British-based leasing companies, the single market offers a rich prize: wider markets, increased flexibility and a host of new opportunities."

However, the UK's leasing and contract hire specialists will not be storming Europe overnight; and any forays into Europe are likely to be careful and slow. The reason is that, despite the best efforts of the EC Commissioners, each individual European market retains its own specific characteristics – and, perhaps more importantly, its own fiscal regimes.

Incidence of company cars in Europe

DIRECTORS	1989 %	1992 %
Germany	80	97
Netherlands	84	94
UK	98	94
Italy	83	93
Belgium	82	93
Spain	85	91
France	83	89

Source: Monks Partnership

British companies cannot go blundering into France or Spain and expect to run a vehicle leasing operation on the same lines as their home-based business; so growth in Europe is most likely to come about as a result of joint ventures with a local business that fully understands the local marketplace.

That is the view of Mr Norman Donkin, chairman of AT&T Norfolk Finance. "In the fullness of time we plan to expand into Europe, though how has still to be determined. But we also need to be cautious. So I think the route would be either to acquire a well-founded company or to go into partnership with one. The last thing we would do is set up alone and in isolation."

Though Britain has the lead in contract hire, it is not Europe's largest business car market. Germany is at the top of the tree as far as numbers are concerned with a business car parc (population) of almost 4m units. The more sophisticated European markets – France, Belgium, Holland and Italy – are all experiencing strong growth in contract hire.

In Germany, most company car business used to be undertaken by finance lease. However, companies are now moving away from purchasing vehicles towards contract hire, which is known as "kilometre leasing".

France, which calls its contract hire *location longue durée*, has seen its leasing business dominated by the home-based manufacturers in the past. So far, the big three – Renault, Peugeot and Citroën – have kept the independent contract hire operators at bay.

Italy, too, was once almost wholly dominated by its major domestic manufacturer, Fiat, but other companies such as VAG, Peugeot and Opel are making inroads. Finance leasing is a popular means of acquisition but full contract hire is still relatively small business.

It is even smaller business in Spain, where the current tax regime means it is cheaper for the employee if the car is bought by the company rather than leased; as a result contract hire has only a tiny percentage of the market.

Holland is a relatively mature market as far as contract hire goes but its customers are traditionally geared towards price only.

"Quality of service and customer loyalty are not high on the list of priorities," comments Mr Neil Fykett, managing director of Cowie Interleasing. He predicts that UK contract hire operators may see Germany and France as likely markets in which to expand in the near future.

However, the single market for vehicle leasing will not achieve its potential until full tax harmonisation becomes a reality rather than a myth, says Mr Ron Elder, managing director of Avis Lease and Fleet Management.

"Each EC member state still operates its own tax jurisdiction regulating VAT, excise duties, benefit-in-kind and ad hoc car taxes. All of these affect the attractiveness and suitability of the range of lease products on the market compared with other means of acquiring vehicles. National governments also retain control of domestic interest rate structures which impact local lease rates.

"Add these to national variations in car delivery costs, maintenance costs and residual values and the estimated time of arrival of true pan-European leasing is somewhere at the end of the decade," he predicts.

But despite the variables, he does discern one trend: a marked shift in Europe away from purchasing vehicles in favour of leasing or contract hire. "It will account for around a third of the market by the year 2000, compared with a current market share of 21 per cent," says Mr Elder though he warns: "But once again, the lack of true harmonisation within the EC may serve to stifle the development of one of the most advanced leasing products available."

Martin Derrick

Martin Derrick finds out how operators are financing acquisitions

'No hassle if you hire'

A RECENT survey of asset acquisition trends by Lombard Business Finance reveals that businesses hard-hit by the recession are still retrenching and plan to make fewer asset purchases in 1993. What the "Sourcing of Finance by British Business" survey also shows is that of those companies that do intend making acquisitions, the current trend on financing methods is towards a cautious approach, with a high proportion of companies favouring self-financing where possible – except in vehicles.

Here, there is a marked decline in the use of instalment credit (hire purchase/lease purchase) and a corresponding increase in the use of leasing and contract hire.

The reasons are not hard to find. Not only does contract hire free capital within a business, but it also reduces a company's administrative burdens and allows it to concentrate on the core business – more important than ever in difficult trading times.

That is why, a year ago, Gulf Oil put its fleet of 160 cars into the hands of PHH Allstar. During a review of internal costs it became apparent that company car administration was taking up too much management time. Mr Paul Henshaw, Gulf Oil's contracts manager, says: "PHH Allstar put forward a proposal to take over responsibility for managing all aspects of the fleet.

"The arrangement is self-financing and after six months it is already clear that the operation is extremely cost-efficient. The cost of the fleet management fee is covered by the reduction in maintenance costs."

Releasing capital tied up in the fleet through a sale and lease-back deal makes sense

Mr Roderick Simpson, assistant managing director of Gardner Merchant, the contract catering organisation, which runs a 1,200-strong fleet, tells a similar story.

"Gardner Merchant offers expertise, economies of scale and experience. It was logical to hand over the running of our fleet to a company which provides a specialist fleet management service in order to reap similar benefits.

"Administering the fleet internally was taking up an increasing amount of time and staff could only react to problems that occurred with the fleet, rather than plan and ensure that these problems didn't happen. We decided we were better off concentrating on the business we knew best – catering – and handing over the management of the fleet to a specialist. We are making a net saving, even taking into account the service fee."

Reducing internal administrative burdens is one good reason for switching to contract hire or fleet management, but it is by no means the only one; and during a recession many companies have found it makes sense to release the capital tied up in the fleet through some form of sale and lease-back deal.

That was the main reason prompting retail group Aquascutum recently to change from owning and running its own 100-car fleet to opting for full contract hire with Fleet Management Services. "They saw the advantages of releasing the considerable capital employed in the cars and they wanted a professional company to run the fleet both to save on management time and to ensure it was being operated in the most efficient possible way," says Mr Pete McAree, sales director of FMS.

But as more companies switch to contract hire or fleet management, it is not only the national and multinational fleet and leasing specialists which are picking up this extra business. Many individual dealers, supported either by their manufacturer-importer, or by one of the larger companies such as Dial Contracts which has launched a franchise system allowing dealers to take advantage of the economies of scale Dial can offer in terms of funding and vehicle acquisition, are also making local inroads into the contract hire market.

"It is definitely a growing area of the market for us", says Mr Stephen Cliff, business manager at BMW dealers Coombs of Guildford. "Many businessmen and women are sick to death of owning cars and now simply want them provided with no hassle and funded with someone else's money. Three years ago we had five vehicles on contract hire, last year we added 40 and this year we will add another 60 to the portfolio."

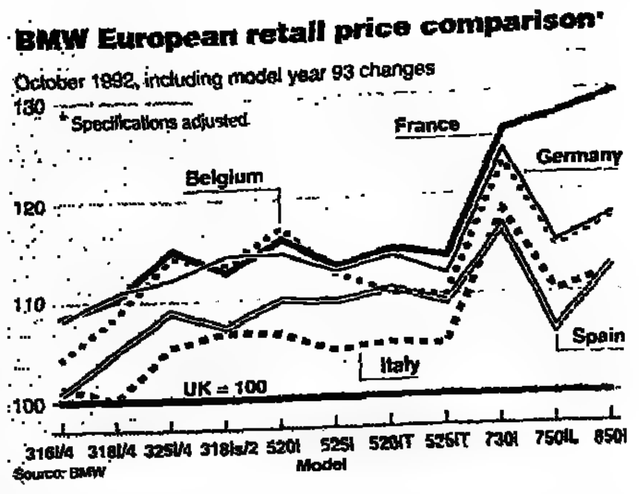
Those are not big numbers in comparison to the contract hire specialists with up to 60,000 cars on their books but the growth potential for dealers is clear – and the customers seem to like what they get from a local firm.

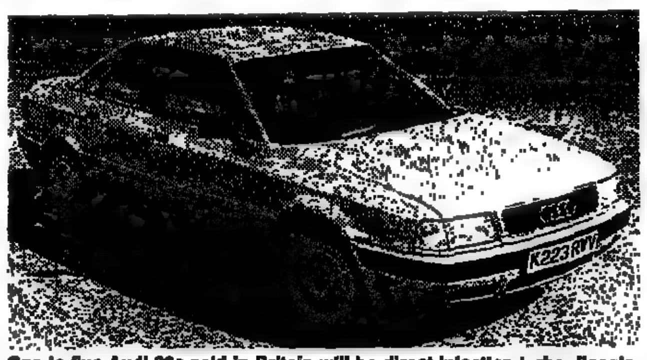
One of Coombs' contract hire customers is Roskel Contracts, which runs around 50 cars on its fleet. Mr Roger Harris, a director, says they changed from purchasing cars to contract hire for simplicity's sake: "I'm told there are tax advantages, but that wasn't the reason. Contract hire is so much easier. If we get a rogue car, it's not our problem but the contract hire company's.

"We know exactly what each car will cost so it takes all the hassle out of running a fleet. All the niggles are passed on to the contract hire company."

BMW European retail price comparison

October 1992, including model year 93 changes





One in five Audi 80s sold in Britain will be direct injection turbo-diesels

The Citroën ZX: outperforms petrol-engined cars of its size and price

Stuart Marshall on why British drivers are now more interested

Budget hopes for diesel

IN 10 years, the diesel car has changed from being a curiosity into the logical choice for the driver who has some regard for fuel economy and environmental protection.

At least, it has in Britain. In many mainland European countries the diesel's ability to cut the cost of motoring has been well-known for a long time.

While diesel's share of annual UK registrations has risen from 1 per cent in 1982 to 12.6 per cent last year (200,835 cars), there is still a long way to go before penetration matches that of France. There, with both horsepower-based annual tax and fuel duty favouring diesel cars, they have routinely been chosen by high mileage drivers and now account for more than 40 per cent of registrations.

Until recently, fuel economy, long engine life and reliability had been the strongest cards in the diesel car's suit.

Typically, a diesel will achieve a year-round fuel consumption between 20 and 30 per cent less than that of a comparable petrol-engined car. Higher economy gains are achieved in heavy traffic rather than motorway driving as the diesel engine performs best when producing less than full power.

Equally, a diesel car shines when used continuously on short journeys involving many cold starts. Because it burns little more fuel when warming up than it does when running at normal working temperature, its consumption may be only half that of a similar petrol car during the first 10km of a winter journey after starting from cold.

This benefit is not fully reflected in the official Department of Transport fuel consumption figures. These are obtained by simulating traffic driving, as well as 90 kmh (56 mph) and 120 kmh (75 mph) constant-speed cruising, with the engine at full working temperature. Life is much harder in the real world where diesels can show more than 30 per cent greater economy when used mainly in stop-start, fairly low speed conditions.

Smoke-belching, ill-maintained and often overloaded lorries do nothing for the diesel engine's image as an environmentally acceptable power unit. Many believe a diesel car is inherently dirtier than a petrol car, especially one with a catalytic converter. That is not so.

A diesel produces only a fraction of the amount of poisonous carbon monoxide created by a petrol engine. Its output of carbon dioxide – the so-called greenhouse gas believed to be the cause of global warming – is lower because it burns less fuel. Less energy is used to produce diesel than petrol at the refinery.

Although its emissions of nitrogen oxides and sulphur dioxide are worse than a petrol engine's, overall a diesel is less damaging to the environment than the average petrol engine with an exhaust catalyser. Now that many car diesels are being fitted with simple oxidation catalysers, the balance of advantage is tilting further in their favour.

But by itself, the environmental argument would cut little ice with business drivers and fleet managers if diesel cars were significantly less pleasant to drive than petrol cars.

EC proposals may lead to a greater price differential between unleaded petrol and diesel. And the threat of a carbon tax can only increase the appeal of executive-class diesel

They used to be slower, noisier and generally harsher to drive than their petrol engine counterparts but a great deal has happened over the last decade. Turbocharging and intercooling have significantly raised output and, by way of a spin-off, made the car diesel engine smoother and more refined.

Engine design changes have improved the combustion process, reducing particulate emissions (in other words, smoke) at source. Two-stage injectors have reduced the diesel engine's disagreeable knocking immediately after cold-starting and almost eliminated it when idling.

The fleet manager and, for that matter, the executive user-chooser deciding to go diesel are now faced with an embarrassment of choice. The days when only a handful of manufacturers offered viable diesel options have long gone. Almost every make of car from supermini to senior businessman's saloon is now available with a diesel (and often turbo-diesel) engine.

Peugeot-Citroën (PSA) is the acknowledged leader in small automotive diesel design and production. Its engines are used in a wide range of cars of its own and other makes, from the small Citroën AX, Peugeot 106 and Rover Metro to the medium-sized Peugeot 405 and Citroën BX, which is soon to be replaced by the Xantia. At present, the 12-valve, 4-cylinder, 2.1-litre PSA diesel is exclusive to the Citroën XM and Peugeot 605.

Indeed, the best of the modern diesel cars, such as the Citroën ZX turbo-diesel, actually outperform some petrol-engined cars of comparable size and price while returning around 50 mpg (5.65 1/100 km).

Among other diesels that perform exuberantly but quietly enough to be used as police patrol cars are the Vauxhall Nova (Opel Corsa) and Astra, powered by engines supplied by General Motors' Japanese partner, Isuzu.

In Britain, most of the growth in diesel car registrations has been at the lower end of the market with engines of under two litres capacity. Current Inland Revenue rules impose a heavy tax penalty on drivers of over two-litre diesel cars. (The rules ignore the fact that a diesel engine needs more cylinder capacity than a petrol engine to produce a given amount of power).

However, the disincentive of tax banding based on engine size to the use of executive-class diesels will probably be swept away when Mr Norman Lamont, the chancellor, presents his next budget. EC tax harmonisation proposals may also lead to a greater price differential between unleaded petrol and diesel. The threat of a carbon tax can only increase the longer-term appeal of executive-class diesel, especially as it uses less fuel.

Despite the tax disadvantage, UK sales of upmarket diesels went up last year. Mercedes-Benz sold 33 per cent more 190D saloons and 45 per cent more 300D and 300TD diesels in 1992 than the year before.

More startling was VW-Audi's 286 per cent and Vauxhall's 307 per cent year-on-year increase in diesel car sales last October though this was mainly due to their introducing greatly improved models.

Diesel executive car sales will be boosted later this year when BMW belatedly enters the UK market with its super-smooth 6-cylinder engined cars.

These, and Audi's powerful yet frugal direct-injection 80 and 100 turbo-diesels, will give quality and image-conscious business diesel car drivers an alternative to Mercedes-Benz, whose diesels are still unmatched for silence and urbanity. And exceptionally, Mercedes-Benz offers automatic transmission on every one of its diesel models. Few others do, though Citroën (the XM) and Vauxhall (the Carlton) are notable exceptions.

How crime is distorting the new car market

Security now a selling point

UK motorists are more than twice as likely to suffer from car crime than they were 13 years ago when the Conservatives came to power, according to Mr Tony Blair, Labour's home affairs spokesman. He says that each year one in five drivers will either have their cars stolen or broken into, writes **Martin Derrick**.

The Home Office response is that its Car Crime Prevention Year has an advertising and promotional budget of £5m and that during the first three months of the campaign, car thefts were down 7 per cent.

Leaving aside the political point-scoring, the fact remains that car crime is at epidemic levels – so much so that it now distorts the new car market. Insurers are either refusing to cover or demanding massive premiums for the high performance cars that seem to be the major targets. The result has been a significant fall in demand for hot hatchbacks and GT models, both new and used.

The government's response is primarily that it is up to the motor manufacturers to provide better in-car security measures, and the efforts of the British Vehicle Rental and Leasing Association over the past five years to persuade manufacturers to do just that are finally bearing real fruit.

Insurers are demanding massive premiums for high performance cars

The BVRLA instituted an annual anti-theft award in 1989 and in the first two years it went to Vauxhall, the only volume producer to take the subject at all seriously at that time. No award was made in 1991, but a well-deserved winner last year was Rover for the highly sophisticated measures – including a standard ultrasonic alarm system – on the revised Rover 800 Series cars.

Happily, the BVRLA judges are going to have their work cut out to decide on the 1993 recipient, because virtually all major manufacturers have now been persuaded that security is an important selling point and that the cost of providing improved protection is outweighed by the commercial benefits.

Rover is likely to be a front-runner again since it has launched the 200 Coupe range, fitted with the same infra-red central door locking and ultrasonic alarm system as the larger 800. Even more pointedly, it has fitted as standard all Metros for the 1993 model year with an immobilising system – the first time any volume manufacturer has done so at the lower end of the market. And although it will not discuss future products, a new 600 Series will be launched in the spring and it is reasonable to speculate that this model will incorporate advanced security measures.

Similarly, what Ford expects to be its biggest-selling fleet car, the Mondeo, which is launched in March to replace the Sierra, features a visible VIN number, high security door locks operated by sleeved cables and shielded from attack by protective steel plates between the two door skins, and an optional deadlocking system combined with an anti-theft alarm which also immobilises the starter motor.

A state-of-the-art protection system is standard on the ultra-high performance Ford Escort RS Cosworth which involves not just deadlocking and alarms but also a Vecta immobilisation system that requires a second electronic key to disarm it.

Vauxhall, like Rover, is now bringing improved anti-theft measures to the lower end of the market with deadlocks available on all models in the new Corsa range which goes on sale in April. A security alarm and engine immobiliser is also standard on 65-versions and optional on all other models.

Porsche has just launched an approved Anti-Theft immobiliser system which, like the Escort Cosworth's, requires a high security microchip key to be fitted into a dashboard housing before the car will start. Porsche claims that with over 35bn key combinations, no two codes will ever be the same and as a result Norwich Union is offering an insurance discount to customers who have the immobiliser fitted to their Porsches.

Porsche owners get a discount if they have an immobiliser fitted

In many ways it is insurance companies which stand to benefit most from improved vehicle security and this is why Mr Derick Perkins of Fleet Management Services says they should do more to contribute towards research to help manufacturers improve the security of vehicles: "Total vehicle security is still a long way off and needs considerable research before manufacturers are in a position to know how to deal with the problem effectively," he says.

Perhaps long-term, research being undertaken by Ford will provide the answer to car theft. Its proposed "Star Wars" system uses satellite technology to pick up signals sent out by the electronic engine management system of the car in the event of theft. A signal is then sent back from the satellite which stops the engine, applies the brakes and triggers an alarm. Combined with the sort of location system already used by Datatrak to follow high-security trucks and vans, it could also alert police to the exact position of the car.

Kenneth Gooding looks at how the cost of running a fleet can be controlled

Instead of a miracle, try management

STEWART WHYTE holds up a small, brightly-coloured box which he claims is the "miracle switch" that car companies are incorporating on many vehicles. This simple device, he says, enables a car which can travel only 27 miles to a gallon of fuel when on business to cover 40 miles to the gallon when the car is being driven privately by the same driver.

A careful inspection reveals the miracle switch to be an empty cigarette carton covered in crêpe paper.

That is how Mr Whyte, managing director of Fleet Audits, a vehicle fleet consultancy, injects some humour into the serious subject of controlling fleet costs during his training courses.

He points out that, if a company urgently needs to reduce the cost of running its fleet, a memo to all company car drivers saying that their fuel consumption is being carefully monitored and that fiddles will not be tolerated "will reduce fuel costs *that week*."

Petrol and diesel pump prices have not risen at anything like the rate of inflation for some years but that might be change in the next UK budget. The government has hinted that it may recoup the income lost in removing special car tax by lifting vehicle fuel duties. There is also the prospect of a "carbon tax" being levied on petrol as part of the government's environmental policy.

Mr Whyte says fuel already constitutes an important part of total fleet costs and, from Fleet Audits' experience, too many companies ignore abuses such as blatant fiddling, aggressive driving styles which produce high fuel consumption or a lack of journey planning to minimise the distances covered.

There are some indications that the recession is making an impact in this area. Latest research by the Monks Partnership remuneration consultancy, to be published in its annual "Company Car Policy in the UK" survey later this year, shows that 62 per cent of the companies questioned now issue drivers with fuel credit cards which can be used only for buying fuel and limited quantities of associated products such as oil or windscreen cleaning liquid. A year ago only 53 per cent of companies were using these cards.

However, the latest estimates also reveal that the number of companies which simply reimburse their car drivers for receipted bills has gone down only slightly, from 49 to 47 per cent, and this is a method which lends itself to fiddling.

Fuel is just one element in the cost of running a company car fleet. With each new car today costing on average between £10,000 and £12,000 and annual running costs of between £4,000 and £7,500, a relatively modest fleet of 50 cars has a capital replacement cost of at least £500,000 and an annual operational budget of more than £250,000.

Yet the harsher economic climate of the past two years does not seem to have encouraged companies to improve the monitoring of their car fleets. Company Secretary's Review magazine's 1992-93 survey of company car schemes, published by Tolley, showed that 28 per cent of the companies questioned *do not monitor costs at all*. This is precisely the same percentage as reported in the previous survey. Furthermore, 34 per cent of the companies monitored running costs merely by checking petrol consumption figures against expenses claims.

Only 54 per cent said they kept detailed records of the cost of each vehicle.

Fleet Audits' Mr Whyte suggests that many companies never bring all cost elements together – the accountant deals with depreciation in the balance sheet; fuel, insurance and maintenance are lost within "salesmen's expenses;" funding costs are the finance director's responsibility. "With no overall picture of how the costs build up, or what the total annual expense is, there is no basis of proper and effective cost control."

It is essential, he says, to have correct information about business mileage covered by the fleet but it took the recent change to employers' National Insurance contributions to shake some companies out of a lethargy about mileage information. "Mileage recording is not difficult and is a pre-requisite of almost every cost factor," says Mr Whyte.

For example, it is needed to make a balanced judgment about moving the fleet from petrol-engined to diesel cars, something which many companies might have to consider if a carbon tax on fuel is introduced.

It was not so long ago, when big price premiums were charged for diesel cars and the cost of maintaining them was perceived to be greater than for petrol vehicles, that it was necessary for a car to cover 17,000 to 20,000 business miles a year to break even. Today, Mr Whyte suggests, the annual business mileage could be as low as 7,000 to 9,000.

Companies are also using out-of-date methods of car allocation, he says. "Most managers accept the principle that vehicles in the same class can have widely different cost and reliability profiles. Most then fail to follow this through and allow vehicle selection on the most unreliable indicator of all – the list price."

Most companies still own their car fleets outright, so residual value is a key ingredient in fleet costs. Too many do nothing to maximise residual values – Mr Whyte points out, for example, the cost of a decent valet at £30 will usually increase residual value by £100 to £250 – or to encourage employees to look after their vehicles.

According to the Company Secretary's Review survey, 42 per cent of the companies they polled sold their cars directly to employees, which Mr Whyte suggests is highly cost-inefficient. The survey continues to show that very few companies offer employees an incentive to maintain their company cars in good condition – only 4 per cent.

Too many companies have not changed their car replacement policies for decades even though vehicle technology has improved tremendously while at the same time, given the state of the jobs market, employees have become less demanding, Mr Whyte points out. "It is important that the responsible director examine all the issues rather than slavishly continue an outdated tradition."

Once again the recession seems to be having an impact in this area. For example, the Monks Partnership found that in the past year the percentage of companies keeping their cars for between 60,000 and 70,000 miles had risen from 34 in the 1992 survey to 38 this year and those keeping their cars for more than 70,000 miles was up from 27 to 35. Also, those companies keeping their cars for between three and four years had risen from 27 to 29 per cent while those keeping cars for four years was up from 2 to 3.

Mr Whyte says another common theme in company car fleets is a lack of driver discipline. Management fails to set standards or to take sanctions against those who breach the rules. One way this impacts costs is that fleet insurance charges are generally increasing by more than 25 per cent a year.

Mr Whyte says that Fleet Audits regularly identifies savings in annual costs of between £300 and £1,200 a vehicle simply by applying the same management disciplines and controls to the company car fleet as are applied elsewhere in the organisation.

The bottom line is that "businesses simply under-manage their fleets. A competent fleet manager with adequate resources to deal with the fleet operation and manage it proactively is undoubtedly an expense. But in most companies that expense is likely to be repaid many times over by the savings generated by effective control."

CAR ALLOCATION (figures in percentages)

Size of fleet	[Total]	6-9	10-19	20-49	50-99	100+
Representatives	65	47	61	65	71	76
Middle management	63	32	50	63	81	90
Senior management	90	73	91	89	97	96
Directors/partners	89	85	89	88	92	93
Engineers, maintenance/tech	9	2	5	11	14	12
Other office staff	2	2	3	1	3	2
Others	4	2	2	4	4	8

Source: Company Secretary's Review Survey of Company Car Schemes

CRITERIA IN ALLOCATION (figures in percentages)

Size of fleet	[Total]	6-9	10-19	20-49	50-99	100+
Seniority	84	83	84	85	86	81
Mobility need	70	65	67	76	59	75
Recruitment need	26	15	13	25	35	44
Work incentive	17	10	19	18	18	16
Minimum annual mileage	9	-	4	6	8	27
Minimum salary	4	1	1	1	3	13
Others	2	-	1	3	6	3

Source: Company Secretary's Review of Company Car Schemes

ACQUISITION POLICIES

Count the cost, not the ozone

CARS CREATE more than their fair share of pollution, some environmentalists suggest, and they damage the ozone layer. In the UK about half the new cars sold are bought by companies. Yet environmental concerns are having very little impact on company car acquisition policies.

Fleet managers are still primarily interested in financial criteria when choosing cars for their fleets. For example, the 1992-93 survey of company car schemes by Company Secretary's Review magazine, published by Tolley, shows the cost of the car is by far the most important consideration when companies are deciding which cars to buy. The discount available, resale value and fuel consumption also rank highly in acquisition policies.

> The most popular "green" response was the use of unleaded petrol in fleet cars

Most car fleet decision-makers do not think the availability of a catalytic converter on a car makes it particularly desirable. They place it at the bottom of a list of desirable factors that the magazine put forward for consideration.

However, another survey shows that environmental concerns are gradually penetrating the minds of decision-makers, even if reaction to these concerns is limited.

According to Hertz Leasing's report, "The Company Car in Context," 51 per cent of those responsible for car acquisition policy agree that running a *fleet contributes to the UK's* environmental problems.

But what are they doing about it? Hertz Leasing found that 79 per cent had considered using unleaded petrol, 47 per cent had evaluated specifying catalytic converters, 38 per cent had considered diesel engined cars, and 7 per cent had thought about using smaller engined cars in the fleet.

Hertz says the most popular "green" response - the use of unleaded petrol in fleet cars – was predictable as all new cars delivered in the UK have had to be able to run on unleaded fuel since 1989 and the price differential between leaded and unleaded fuel acts as a financial incentive for a switch to unleaded. The report also points out that this switch does not do too much for the environment because unleaded fuel emits about the same level of carbon dioxide, nitrogen oxides and hydrocarbons as its leaded equivalent.

Hertz also suggests that "it is likely the high statistic for catalytic converters is related to a tendency for more expensive, manager/director cars to have them fitted as standard equipment".

There was considerable resistance among fleet managers to the use of diesel, said to be a more efficient, cost-effective and less environmentally damaging fuel.

However, they seemed "highly predisposed" to using electric cars once these vehicles become a viable proposition and 70 per cent said they would consider adding them to their fleets.

Of the companies surveyed, 23 per cent boldly told Hertz that environmental factors had not the slightest influence on their company car acquisition policies. However, a similar percentage said such factors had had a "significant" influence.

It was to be expected that UK companies would be more interested in saving money than saving the planet when acquiring cars, after all they have been struggling in the worst recession for 60 years and first things have to come first.

Essentially, corporations have three choices available when buying cars: outright purchase or finance lease with in-house management; purchase or finance lease with outside management; and contract hire (operating lease) with lease company management.

There seems to have been a substantial shift in sentiment at big companies away from outright purchase as the recession began to bite severely in 1990-91. The Monks Partnership remuneration consultancy group reported in its 1992 survey, "Company Car Policy in the UK," that, whereas the previous year companies reporting had bought 61 per cent of their cars by outright purchase, the latest statistics showed only 57 per cent were bought by this method.

Monks reported: "Contract hire and leasing have increased in popularity as a method of acquisition in larger companies, while there has been a return to outright purchase in smaller companies."

From the fleet manager's point of view, contract hire takes away nearly all the administrative problems associated with running a car fleet and permits clear and accurate budgeting. Of course, monthly rentals have to reflect the cost of providing this range of services, plus some profit for the contract hire company. However, contract hire companies running big national fleets can obtain huge discounts from the car makers and also buy their servicing and repair at only a fraction of the retail rates – benefits they can reflect in charges to clients.

> A shift in sentiment at big companies from outright purchase as the recession began to bite

An alternative to contract hire has recently emerged: contract purchase. Here the customer continues to have the advantages of fixed costs associated with contract hire – a useful aid to accurate budgeting – but can also claim writing-down allowances. This method tends to be beneficial for more expensive cars – those costing £22,000 or more. Monks Partnership reckons that about 3 per cent of companies are now using contract purchase compared with 24 per cent using contract hire.

Company Secretary's Review looks at the market in a slightly different way – at the number of cars covered by different types of acquisition methods. Its latest survey shows that contract hire and outright purchase account for 90 per cent of car acquisitions, shared about equally between the two methods. The magazine says that the main attraction cited for contract hire was that no capital outlay was required, "with simplification in budgeting and administration also very important."

The magazine's study shows the vast majority of companies using contract hire have a full maintenance package.

Kenneth Gooding

A flock of new models and facelifts has broadened the buyer's choice, says **Stuart Marshall**

Goodbye Sierra, hello Mondeo

NEW MODELS are coming and old favourites have had major mid-life facelifts.

The fleet market this year may prove to be turbulent for the car makers but buyers are going to find themselves spoiled for choice.

First, Ford's new front-wheel driven Mondeo is replacing that fleet buyer's staple, the Sierra. From March onwards it will be locking horns with well-established favourites such as the revamped and significantly improved Vauxhall Cavaliers and Peugeot 405s.

Mondeo, which from the outset will be offered as a 4-door saloon, 5-door hatchback or estate, promises to put new life into Ford's fleet business. Its styling is nothing like so distinctive as the Sierra's 10 years ago but even the entry model comes with a driver's side airbag and power steering.

Multi-valve 1.6, 1.8 and 2-litre, 4-cylinder petrol engines with 5-speed manual gears are standard. Ford's own Dagenham-built 1.8-litre turbo-charged and intercooled diesel will be a popular minority choice.

It outperforms the 1.6 litre Mondeo but the figures suggest an average fuel consumption of close to 50 mpg (5.65 1/100km) of diesel compared with 42 mpg (6.73 1/100 km) of unleaded petrol.

There will be posh Ghia versions of the Mondeo with air-conditioning as standard and a host of options such as traction control or four-wheel drive, a new US-designed 4-speed automatic transmission, leather trim and cruise control. These – and the forthcoming 2.5 litre V6 engined Mondeo – could tempt user-choosers out of their Scorpios.

General Motors and PSA made pre-emptive strikes against Mondeo late last year. The Vauxhall Cavalier (Opel Vectra) and Peugeot 405 ranges have been restyled and, more importantly, refined.

Though hardly a fleet car, the Cavalier 4x4 Turbo with a 6-speed close ratio gearbox is either a cut-price Calibra with more room inside or a rival for Audi's upmarket quattro models.

Peugeot, perhaps stung by criticism of patchy build quality, has given the latest 405 the solid feel of a BMW to go with its class-leading ride and handling.

Though its UK market introduction is still several months off, the Swindon-built new Honda Accord (and its Rover counterpart, the 600) will raise the stakes in the 2-litre executive market.

A dark horse that all the fleet car providers will be looking at is Citroën's new Xantia, due in Britain by summer, with petrol engines with diesels following soon after.

Xantia replaces the BX, which did much to establish Citroën in the UK as a car for normal people, not just enthusiasts. But it is bigger than the BX and elegantly styled, with lines reflecting both the large XM's lean and hungry look and the smaller ZX's chubbiness. This sophisticated car, with electronically controlled semi-active suspension, is expected to be priced competitively against Mondeo and Cavalier.

Will 1993 see the products of Japanese transplants in the UK being regarded as proper British cars by fleet managers and their financial masters? It should, because the Sunderland-built Nissan Primera and the Derby-built, Welsh-engined Toyota Carina E have around 80 per cent EC (and about 50 per cent UK) content.

Magazines which persist in regarding motoring as a sporting activity, not personal transport, are scornful of the Primera's and Carina E's alleged blandness. Real world drivers find them quiet, comfortable and economical. In reality, they are Ford, Vauxhall and Rover alternatives.

The psychological barrier against buying a "Japanese" car is the only thing likely to prevent them from making a substantial impact in the fleet market.

In the executive sector, the Mercedes 190 is still widely regarded as the benchmark car. Its replacement, due to make its debut at the Geneva Show next month, is likely to retain the position, with its high capital cost so well offset by slow depreciation that it can cost less to run over, say, four years than an apparently cheaper car.

The 3-litre and 4-litre V8 engines intended for the forthcoming new BMW 7-Series have replaced the in-line sixes in the current ones, making them even silkier. A BMW 730i V8 with 5-speed automatic transmission (or for that matter a two-pedal, 24-valve Mercedes 320E) must approach many executive car drivers' ideas of perfection.

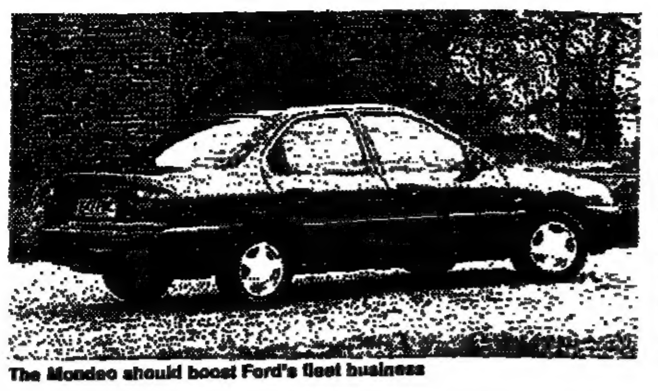
Longer wheelbase Jaguar and Daimler Majestic models with 3.2-litre and 4-litre straight-sixes will not be available in the UK until the summer, though the long-awaited V12 engined XJ6 is due to go on sale in April.

Meanwhile, a Daimler 4-litre may feel a bit soft around town but as speed rises, it becomes a real driver's car. It would please a business driver who loves a traditionally English car, wood veneered and trimmed in (and perfumed by) Connolly's hide whose board won't allow him to have a Bentley Brooklands.

A trend in 1993 will be the increased availability of V6 engines in middle price range executive saloons. Among them are the Audi 100 and Volkswagen Vento, Vauxhall Cavalier and, before long, Saab 9000.

A good alternative to a V6 of between 2.5 and 3-litres is a smaller turbocharged 4-cylinder.

No-one has demonstrated this better than Saab. Despite – or perhaps because of – the recession, its turbocharged cars have sold exceptionally well. They, and recently introduced rivals such as the Citroën XM and Rover 800 with 2.0-litre turbocharged 4-cylinder engines, offer good economy when driven gently, with truly rousing performance on tap when required.



The Mondeo should boost Ford's fleet business

Volkswagen's 2.8 litre Vento: for executives when size is not everything

In spring, Britain's Big Four launch a free-for-all

Head-on collisions

THIS YEAR promises to be critical for Britain's vehicle fleets. Three of the four domestic car manufacturers which dominate the sector will launch models in the mid-range categories that are most favoured by operators. The fourth will weigh in with a small hatchback. The outcome of these moves is uncertain, but they seem set to alter the shape of the business.

Ford starts the spring collections in March, when it unveils the eagerly awaited Mondeo. That event will be quickly followed by the launches of the Peugeot 306, Rover 600 and Vauxhall Corsa.

There is a buzz whenever one of these companies puts a new model on the market. When all four do so within three months, there is bound to be a substantial impact on fleets – the business defined by the Society of Motor Manufacturers and Traders as orders of 25 or more. Together, Ford, Vauxhall, Rover and Peugeot account for four out of five fleet car sales, compared with three out of five sales for the market as a whole.

Fleet operators seem to have weathered recent economic setbacks better than retail or private buyers, statistics suggest. As overall car sales went into steep decline in the 1990s, fleets have gained in importance. They grew from around a third of all sales at the end of the 1980s to about 41 per cent last year. While total car demand went down marginally last year, fleet sales rose nearly 6 per cent. Britain's Big Four are hoping their imminent new models will continue that growth.

The introduction which will have most impact is Mondeo, the replacement for the decade-old Sierra. As long-time market leader, Ford does not like the idea of the Vauxhall Cavalier as fleet best-seller. Its answer is to adopt front-wheel-drive for Mondeo (like Cavalier, unlike Sierra) and what it promises is a sophisticated specification.

Mr Ian McAllister, Ford of Britain's chairman and managing director, says of Mondeo: "It's a very impressive piece of machinery. I think it will do a tremendous lot for Ford's position in the market place."

He is convinced this year will be a good one for Ford. It will certainly be busy. Mondeo will make up for flagging Sierra sales. It arrives shortly after the company relaunched the Escort – No 2 on fleet buyers' shopping lists – with a fresh look and modern engines. Furthermore, Mr McAllister has two more niche models to lob into the market towards the end of this year: the Maverick off-roader (built by Nissan in Spain) and Probe coupe (built by Mazda in the US).

All that should help arrest Ford's declining lead in the fleet market. It lost around 4 percentage points to finish the year on approximately 29 per cent. By contrast, Vauxhall, the nearest challenger, crept up to nearly 27 per cent.

Fleets are vital to Vauxhall which, more than any other company, achieved its climb in the British market through fleet sales. The General Motors-owned company's business at the retail end is static at best.

This year, however, Vauxhall's main new model is in a category less popular with fleet buyers, small hatchbacks. Nova will be replaced in April by the new Corsa, a name used in the past only for cars sold in the rest of Europe. But the newish Astra continues to sell well, and GM's new, Ellesmere Port-built V6 engine will be offered as an option on the Cavalier this spring. That will put it ahead of Mondeo, which will have V6 engines (imported from America) only from the end of 1994.

Rover's big event will be in May, when it will present a true competitor for Mondeo and Cavalier. It is much-needed, for the Montego, which was supposed to do the job, never gained wide acceptance among fleet or private buyers. The newcomer is the 600, a saloon to be made at Cowley. It will fit between the 400 and 800. Like them, it is based on a design by Honda, which owns 20 per cent of Rover. Indeed, Honda's version, the Accord, is already in production at Swindon and on sale in mainland Europe. It will be sold in Britain from around the same time as its Rover twin.

By that time, Peugeot will have introduced the 306, the replacement for the 309 and a rival for the Escort and Astra. The car, a close cousin of the Citroën ZX, will be made at Ryton alongside the recently updated 405. The development should strengthen Peugeot's standing in the fleet business.

Mr Geoffrey Whalen, Peugeot's managing director, recalls: "A decade ago we were predominantly a retail company. We had nothing in the Sierra category until we started building the 405 at the start of 1988. That was the key."

The model allowed the company to create a fleet presence from practically nothing. It now ranks fourth behind Ford, Vauxhall and Rover, and well ahead of fifth place Renault. The 405 is expected to be replaced by an entirely new model in the autumn of next year.

Of course, the Big Four will not be the only companies with new models this year. From the volume producers there will be replacements for the Citroën BX, Fiat Cinquecento and Uno and Renault 21. At the more expensive end there will be new versions of the Mercedes-Benz 190 and Saab 900. The Jaguar saloon will get a V12 version, and the Volvo 850 will be offered as an estate. And last month Chrysler returned to the UK after an absence of 14 years with a couple of Jeeps.

The unknown is to what extent those new British makers – Nissan in Tyne & Wear and Toyota in Derbyshire – will pursue fleet buyers. Their models, the Primera and Carina E, would slot perfectly into any fleet. So would Honda's British-built Accord, though that company regards itself as more of a competitor to BMW than Ford.

Richard Feast

Diesel makers submit to tighter exhaust rules, says **Alan Bunting**

The price of fresh air

BY next October all new diesel-engined commercial vehicles must meet European exhaust emission limits on four different pollutants – three gases and dust.

It is relatively easy to cut emissions, but marketing men and engineers want to do it with minimum cost and loss of fuel economy.

Companies such as Mercedes-Benz and the proprietary engine maker Cummins have grasped the nettle by "wrapping" the emission-related changes into a broader package of improvements. The cost penalties of meeting new environmental legislation from Brussels are hidden in a list price increase justified by other improvements.

Many manufacturers' engine horsepower ratings have been revised upwards to overcome the loss of hill-climbing and acceleration performance which would otherwise result from the tighter emission limits.

Independent road tests on the latest "Euro 1" (emission compliant) 38-tonne articulated tractor units from Mercedes, MAN, Scania and ERF show that the latest 400-plus horsepower models can complete their journeys more rapidly with less fuel than their 1980s counterparts. Among heavy trucks introduced in the past 12 months are Iveco's EuroTech and the 75/85-series models from DAF. Both have performed well under road test conditions.

Their cab and chassis designs have a refinement unknown a decade ago, which makes for safer driving over the longest inter-city hauls, at 38 or 40 tonnes all-up weight.

Though their cabs and chassis mark them as undeniably new models, the EuroTech and 75/85 rivals are surprisingly conventional in the engine and driveline.

The truck industry's more profound technical developments of the 1990s have appeared behind the more familiar images of established heavies, notably from Sweden.

Scania is unique in offering a turbocompound engine – a 400 horsepower diesel whose exhaust gases are routed first through the familiar enforced-aspiration turbocharger, but then into a further small turbine (made by Holset in Huddersfield) which drives directly on to the engine flywheel.

Turbocompounding raises the overall efficiency of the diesel engine to a new high of about 46 per cent, though its critics say its full benefits are felt only on continuous high-speed, high-load truck operation, such as American coast-to-coast running. Road test performance and fuel economy on the 11-litre Scania turbocompound have been satisfactory but not spectacular.

Meanwhile, Volvo has concentrated on making heavy trucks easier to drive, with the introduction of its Geartronic gearshift system. It is the world's first electronically-controlled mechanical transmission to be offered to commercial truck buyers which needs no clutch pedal.

It functions as a car-type fully automatic gearbox, but without the formidable cost, weight and fuel consumption penalties associated with the latter's torque converter drive. Geartronic is likely to add some £3,000 to the price of a right-hand-drive Volvo FL10 chassis when the option becomes available in June.

On all the latest specification truck chassis there is a downside, in the form of additional tare weight.

Engines tend to be heavier, because of their more elaborate fuel systems, which are being called upon to deliver more precisely metered quantities of fuel at much higher pressures.

An intercooler – looking like a second radiator – has become almost unavoidable under the new emission laws, adding inevitable further weight. So too, of course, do "perceived value" features, such as wind spoilers and cab interior embellishments, which now tend to be standard rather than optional.

At lower truck weights, notably at the HGV driving licence breakpoint of 7.5 tonnes, competition is no less fierce, though buyers are more likely to look first at the selling price and then at the specification. Independent assessments of the three UK main contenders at 7.5 tonnes show the best-selling DAF 45-series, the Iveco EuroCargo and Mercedes' well-established 814 chassis to be all operationally-attractive vehicles.

COMPETITON IN THE AFTER-MARKET

The need for longevity

A DECADE ago, the buyer received only one thing when he bought a car: a metal box on four wheels, covered grudgingly by a rudimentary warranty sometimes as short as six months or 6,000 miles.

How the car fared after its first few months in service; whether it rusted or fell apart or broke its owner with huge spare parts costs and service bills was the very last concern of the smiling salesman. He washed his hands of the deal.

Things have changed dramatically. Compared with life in the early 1980s, today's car market competition is cut-throat, and the rise of consumerism – helped by the fact that the car market has been in the buyer's favour since the end of the 1980s – has led business buyers to judge a car on how it is supported in the after-market.

Fleet manager or user-chooser, today's business car operator is attracted by long warranties and free breakdown recovery deals, rust warranties and low service charges, "own brand" insurance schemes and fast-fit spares operations. And an increasing number want to hear, at the end of their car's life, how it will be recycled.

They are right to be concerned. A recent survey by City-based automotive consultancy Ludvigsen Associates shows that a car's retail price accounts for only 40 per cent of its whole-of-life cost. The remaining proportion consists of fuel costs (33 per cent) and standing costs, servicing and repairs.

Some car companies have reacted quickly to the trend, having learnt in the middle 1980s that the crowded car market was reaching saturation point and that repeat business was going to be crucial in the years ahead.

A salesman might sell the first batch of cars, one dealer group chief famously said, but the service department staff would sell the second, third and fourth.

In a bid to sell more cars to its US clientele, GM has recently been encouraging its existing customers to become Mastercard users, and then to "turn plastic into steel". Two million people reportedly became GM cardholders in the scheme's first six months. Vauxhall is believed to have its eye on the idea.

The biggest recent UK improvement in after-market care has been in warranty cover.

Every car has at least 12 months' unlimited mileage mechanical warranty these days, and some much longer. In 1983, Mitsubishi cars began to carry a three-year unlimited mileage warranty, still the most comprehensive mechanical cover available in Britain as part of any new car's purchase price, and this has spurred others to improve their cover.

Most other Japanese makers and some Europeans now have three-year cover though many impose a 60,000 mile expiry limit.

Jaguar, which introduced a three-year warranty last year, claims it caused sales to surge in August. Even the cheap Russian-built Lada cars have a two-year mechanical warranty.

Those companies which cling to only one-year warranties (Ford, Vauxhall, Rover and, perhaps surprisingly, BMW and Mercedes-Benz) offer warranties at extra cost, stretching to five years and occasionally beyond.

A recent survey shows that a car's retail price accounts for only 40% of its whole-life cost – the rest is fuel, standing costs, service and repairs

Today's cars also carry so-called rust warranties, which are claimed to cover the car against corrosion from the inside or "perforation". Until the mid-1980s, that was a common problem in nearly all cars, though several Italian marques unfairly bore the brunt of the criticism.

These rust warranties commonly last for six years but the all-galvanised Audi term is for 10 years.

Though manufacturers make much play about presenting "plain language" warranties, the truth is that rust warranties are hard to claim against, not least because some require regular, inconvenient inspections to retain their validity. Others still require a car to be regularly treated with rust-proofing compound. Their main value, however, is that they have forced car-makers to improve rustproofing at manufacture so that it is simply not an issue in the car's first six or eight years of use.

The market has been demanding lower service costs for years, but manufacturers resisted for quite a while, fearful that the move would harm their dealers' profits. Citroën showed the way in the early 1980s with its "loves driving, hates garages" slogan for the BX family hatchback.

Since then, most makers have extended their service intervals and cut labour costs. Grease nipples, so beloved of 1950s and 1960s suspension designers, are a thing of the past. Nearly every car now goes 6,000 miles between intermediate "oil" services and 12,000 between "full" services. Today's VW Golf needs only about four hours' workshop attention every 20,000 miles, and the bill for this, even in central London, should not be more than £250. Even a Porsche 911, doing 12,000 miles a year, costs less than £600 for annual servicing.

Because today's cars require less frequent workshop visits, manufacturers are anxious to keep customers loyal to their own dealer network.

They have watched askance at the rise of chain car-servicing businesses that stress low cost and while-you-wait convenience, such as ATS, Kwik-Fit and Halfords service centres.

Nowadays, they fight on three fronts to keep business: by opening own-brand fast-fit centres (Ford, Vauxhall and even luxury makers such as Saab have recently begun to do it), some (notably BMW) have made a big play of reducing spare parts prices and nearly all car-makers now have a "menu" of servicing and repair costs for their cars, so that even a Mercedes-Benz or a Rolls-Royce owner can know what a job is going to cost in parts and labour.

Meanwhile, competition to impress after-market customers continues on an ever-widening front. Many companies offer "own brand" finance, insurance and leasing details which they claim can be tailored to an individual client's needs, whether he buys one car or 500.

For the future, the buy-back scheme looms. Porsche already has one operating for its 968 model: customers who pay £36,000 for the car now can get 55 per cent of their money back in three years, when the car has done 36,000 miles.

Big companies like Ford (with Options) and Vauxhall (with Choices 1-2-3) are also moving towards buy-back. They already offer a form of personal leasing which allows a customer to take a new car for a fixed term and finance only its depreciation over the term.

Mercedes-Benz has a similar scheme working for both its new and used cars: it looks particularly attractive as Mercedes cars lose value more slowly than most others.

Recycling is an after-market issue which has yet to raise its head in the UK, though few industry-watchers doubt that it will. BMW recently became the first company to open a British car recycling plant, at Bolney in West Sussex.

Eventually, says the company, 16,000 BMWs will be scrapped annually through recyclers. At that stage, the company will truly be looking after the car from the cradle to the grave.

Steve Cropley

Kevin Done explains the next step towards harmonising EC car prices

Differentials will be published

FROM May, carmakers will have to publish comparative EC price-lists for selected new vehicles twice a year under a plan agreed with the European Commission.

The scheme will mark the next step in the vexed debate over carmakers' pan-European pricing policies.

Publication of the price lists is aimed at helping car buyers to shop for bargains across EC borders. The lists, agreed while Sir Leon Brittan was EC competition commissioner, are aimed at increasing the pressure on manufacturers to bring car prices more into line across the EC and to make it more difficult for car dealers to discriminate against foreign buyers.

The investigation of carmakers' pricing policies across Europe is set to intensify over the next two years. In mid-1995 the present 10-year "block exemption", which controversially allows car makers to use a selective dealer distribution system in contravention of European Community competition rules, is due to expire.

The motor industry has been warned by the EC competition directorate that a renewal of the block exemption will depend largely on car manufacturers' adherence to EC limits on car price differentials across Europe.

The block exemption granted in 1985 was conditional in part on car prices between member states not differing by more than 12 per cent in the long term or by more than 18 per cent for periods of less than a year.

During 1992 both the UK Monopolies and Mergers Commission and the European Commission published reports on car prices in Europe. Neither report removed the widespread confusion over price differences, but the EC report in particular drew attention to many cases where price differentials had exceeded the block exemption guidelines.

According to a survey late last year by Beuc, the European consumers' organisation, the prices of certain new models can vary by more than 40 per cent between countries. Manufacturers point out that prices are mostly within the 12 per cent band recommended by the Commission.

Certainly UK new car prices, which have previously provided consumer groups with much of their ammunition, appear to have been brought much more into line with the rest of the EC through a combination of recessionary pressures and last September's devaluation of the pound.

Motor retailers in the UK have been disappointed about the lack of action by the Office of Fair Trading in the wake of last year's MMC report, and they are particularly concerned about the price distortions that result from carmakers offering very large discounts on direct sales to some large fleet operators.

Mr Alan Pulham, director of the franchised retailer division of the UK Retail Motor Industry Federation, says that "the MMC annual review spells out several items which raise the price level in the UK, in particular the deep discounts which large fleet owners obtain from suppliers, which distort the price structure for other buyers".

Direct sales from manufacturers to large fleets at enormous discounts were not fair to motor retailers or their customers. "Such discounts have to be paid for by everybody else and they effect both new prices and used car values."

The pricing debate has recently been widened beyond Europe, however, by a report from Ludvigsen Associates, the UK-based automotive analysts, which claims that whatever the price differences within Europe, European car buyers in general are paying as much as 30 per cent more for new cars as consumers in the US and in Japan.

Ludvigsen Associates, which carried out the basic research for the MMC inquiry in the UK, claims that "the European car buyer is spending more than he should for personal transportation" both in absolute terms and in relation to household income.

The report was the first co-ordinated attempt to compare car prices between Europe and the other main world markets, the US and Japan.

According to the study, the largest differences are with car prices in Japan. It claims that European car prices (net of tax) are 33 to 43 per cent higher than equivalent prices in Japan, while European prices are 15 to 45 per cent higher than in the US.

On average, it takes 27 weeks of gross family income for a European to buy a car compared with 21 weeks in America and 15 weeks in Japan. The UK is at the European average, while the Germans, French and Belgians need four weeks less.

The Commission's plan for the biannual publication of price lists is not legally binding, but EC officials have indicated that if carmakers do not co-operate they will risk losing their jealously guarded right to operate their sales and distribution through exclusive dealerships.

Every manufacturer that sells cars in the Community will have to select a representative model from each part of its product range and publish the prices in 10 EC countries. The carmakers will also have to supply information about the price of five common options – anti-lock braking systems, air conditioning, right-hand drive, automatic gearbox and power steering – and details of warranty, roadside assistance options and delivery costs.

Prices, published in May and November every year, will be shown both before and after tax, in Ecu and local currency. Comparative figures for Denmark and Greece – where car tax of more than 100 per cent distorts selling prices – will be omitted.

The Commission agreed to drop its original demand that manufacturers should supply information about all possible models and options on the grounds that it would be too time-consuming for manufacturers and confusing for consumers.

Manufacturers are still likely to argue that realistic comparison is difficult because dealers in some countries are prepared to offer large discounts on the list price of certain models.

However, they will also hope that by being more open about comparative prices they will stave off the abolition of selective distribution.

CONTRACT HIRE

Shake-out may be near end

AFTER a spate of acquisitions, contract hire seems to be absolutely the flavour of the month. But the reality is rather different.

Those companies that have been expanding through acquisition are doing so only extremely cautiously and selectively. In the 1980s, when contract hire took off, the rapid growth of the industry persuaded many newcomers to the business that this was a source of easy money. And indeed, while there was constant growth, that regular new business tended to disguise the structural problems that became all too evident once the recession took firm hold.

Several smaller contract hire companies got into difficulties because they underestimated maintenance and other costs and overestimated residual values. Big losses ensued at the end of a three-year contract when vehicles turned out to be worth hundreds and in some cases thousands of pounds less than expected. Contract hire companies such as these – with a poor portfolio of customers – will find it hard to attract a white knight.

Mr Norman Donkin, former managing director of Lease Plan UK who, as director of AT&T Capital, has a specific brief to develop a European leasing division for the American corporation, says: "We looked at a number of contract hire companies that were for sale. What we wanted were sound management, a good quality portfolio of customers and good systems.

"Many of the companies for sale did not meet all these criteria. Even more did not meet our other requirement, which is that the company should be profitable.

"So what we did is to look at some companies that were not necessarily for sale and decided that instead of buying a large contract hire company we would do better to acquire a medium-sized one with an infrastructure in place that could be built upon."

It was the combination of a lack of profitability, losses on disposals and problems with gearing that contributed to the decisions by a number of groups to try to dispose of their contract hire and leasing businesses, says Mr Nick Brown, managing director of Trimoco Leasing and chairman of the British Vehicle Rental and Leasing Association's leasing committee.

But he also believes that the recent shake-down in the industry may be coming to an end. "After a period of consolidation, the companies that remain are mostly trading profitably because at the beginning of the recession they recognised the problems that were coming and so adjusted their rental rates upwards and their residual value projections downwards. Those that have survived the last three years will probably grow as the market expands."

Most of the current rash of takeovers and acquisitions are due to some smaller companies getting into difficulties over residuals and costs, according to Mr Ron Elder, managing director of Avis Lease and Fleet Management, who says that there will still be room in the marketplace for the niche players.

"Some companies certainly did misread the market and are now looking for someone to bail them out. And while it is true that some of these smaller companies – especially the non-specialist firms which took on contract hire as an add-on to their core business during the boom period – may now want out, there will always be a demand for a smaller company offering a local service and a higher level of personal attention to their customers.

"But I believe we will not see the same number of start-ups and new entrants to the business once residual values improves and leasing looks a good bet again. A lesson has been learnt the hard way that contract hire is a specialist business requiring specialist skills to survive the down periods as well as thrive during the good times."

Avis Lease and Fleet Management itself has a new parent company since last year when General Electric of the US acquired the business. And the recent period of consolidations and mergers is not wholly over yet, predicts Mr Elder.

"We have a parent with the capacity to grow the business. So when opportunities come along, nothing will stop us going after them – we have plenty of investment funds available for the right acquisitions," he says.

Martin Derrick

USED CARS

Too few desirable models

THE growing number of canny business motorists who buy their cars "nearly new" instead of straight from the showroom – and save thousands on early-months depreciation – are in for a shock this year. The cars they seek are likely to be in far shorter supply than they have been for years, and what stocks there are will be picked over by hard-pressed car dealers before the end-users get a look in.

At the other end of the scale, the used car market is becoming increasingly clogged with high mileage three- and four-year-old business cars, which recession-hit businesses kept for too long in extended leasing deals. These models, often with more than 100,000 miles "on the clock" are proving unattractive to private buyers who, in better times, would be their natural second owners.

Worst of all, because private buyers of new cars have been in full retreat for three years, the flow of trade-ins to dealers they provide – the best used car stock of all – has dwindled alarmingly.

It all adds up to crisis in the used car business. In a nutshell, the potential buyers can't get enough of the cars they want, and the cars most readily available are largely unwanted. "This complex combination of factors, plus the fact that everyone is short of money, looks like making things very tough in used car retailing as the year goes on," says Mr David Raeside, editor of the trade newspaper, Motor Trader. "There will be some good cars about very early in the year, but quite soon they're going to be much harder to find."

The root of the crisis is the rise of a British "nearly new" car culture in the second half of the 1980s, following a similar US trend. Volume car sellers such as Ford, Vauxhall, Rover and Peugeot, desperate to increase market share and keep their factories at capacity, began selling lots of cars to big daily rental companies.

As the recession has grown in severity the selling – at discounts reputed to be as high as 40 per cent – has become more and more of a lifeline for the car companies. For some, discounted sales to fleets and rental outfits have been accounting for as much as a third of total volume.

Laughing all the way to the bank, hire companies have been selling at auction, sometimes at a net profit, and ordering more new models.

At the height of the business, about 18 months ago, some hire companies were keeping their cars for as little as three or four months and 3,000 miles before replacing them. Commonly, a Ford Fiesta, bought for £8,500, might go through the auctions at six months and with just 5-10,000 miles on the clock, at not much more than £6,000. Bigger cars showed even larger percentage price falls.

Not surprisingly, dealers have been up in arms at the companies' practice, over the past five or six years, of selling cars to big customers at far less than to their own franchised networks – which have to operate from premises which are often plush and expensive. Dealers have been operating on margins of 18 to 20 per cent and coming under strong customer demand to provide discounts up to 15 per cent.

Last year, when rental companies, notably Hertz, began retailing their own ex-hire cars directly to the public, dealers hit the roof. Typical of their reactions is this from Mr Terry Dignan, chairman of the Wolverton Motor Company, who called the move "a double whammy on the motor trade" and claimed it showed car companies had lost control of their own franchising system.

"The recession has hit our business," says one West Country sales director, "but a lot of our regular customers, who might have bought anyway, have become reluctant to lose so much money so quickly on their new cars."

There is little doubt that the car firms would like to curb the practice of selling hugely discounted cars to hire fleets; both Mr Ian McAllister of Ford and Mr Peter Batchelor of Vauxhall have said so. But the company that stops first risks losing market share, and history seems to indicate that gentlemen's agreements do not work in cases like this.

Mr Peter Vardy, chairman of the north-east dealer group Reg Vardy, has been an enthusiastic dealer in nearly new ex-hire cars for the past few years, seeing them as a way of providing economical cars to private buyers for whom showroom cars have become too expensive. He notes a new firmness in the way car makers are resolving to curb the sale of ultra-cheap cars to fleets. "They all say there will be fewer of these sales this year," he reports, "and they sound as if they mean it. But then again, they all said it last year ..."

According to Mr Vardy, the availability of nearly-new cars puts alert dealers at no disadvantage: it presents them with a source of good cars they can sell a lot cheaper than new, while making a healthier profit per unit than the £200-£400 they take on, say, a new small Ford after discount. "As long as the cars go through the auctions, we'll be standing there to buy them," he says.

He is sure, however, that the market needs an end to the two-tier sales system, which will lead to a firming of residual values, to get completely back into its stride – December showroom sales surge notwithstanding. "New cars for private people have become too dear because the makers have been selling so cheaply to hire fleets," he declares. "When that ends we'll get buyer confidence back, and the world will turn a lot more sweetly."

Steve Cropley

ACQUISITION METHOD (figures in percentages)

Size of fleet	[Totals]	6-9	10-19	20-49	50-99	100+
Straightforward purchase	43	46	31	33	43	46
Purchase with trade-in	3	14	11	9	–	1
Hire purchase	3	20	10	5	7	1
Contract hire	45	17	40	43	46	46
"Open-ended" or "finance leasing"	5	3	3	9	4	4

Source: Company Secretary's Review Survey of Company Car Schemes

UK gloom as Leyland Daf collapses

Steep descent

THE UK car and commercial vehicle markets have begun to show tentative signs of recovery from the depth of recession, but the recent improvement in registrations remains weak.

UK new car sales rose year-on-year by 7 per cent in January, while registrations of new commercial vehicles rose by 4.4 per cent, in both cases the fourth consecutive month in which registrations had been higher than in the corresponding period a year earlier.

The collapse into receivership this month of Daf, the beleaguered Anglo-Dutch truck maker which is also the clear UK truck market leader, has served as a grim reminder, however, of the strength of the recessionary pressures.

Tens of thousands of jobs have been lost in the motor industry in Britain in the past three years, reflecting the steep drop in demand for new vehicles. From peak sales of 2.3m in 1989 new car sales in the UK have plunged by 31 per cent to only 1.59m in both 1991 and 1992.

During the same period sales of new commercial vehicles dropped by 45.8 per cent from 371,104 in 1989 to only 201,186 in 1992, while sales of trucks, the sector worst affected by recession, have more than halved with a 54.6 per cent decline to only 31,396 in 1992 from 69,234 in 1989.

Established vehicle makers in the UK have been forced to reduce drastically their capacity and implement severe cuts in their workforces.

Last year AWD, the small privately-owned truck maker that had been formed from the rump of the loss-making Bedford truck operations in the second half of the 1980s, went into receivership. Renault Véhicules Industriels, the French commercial vehicle maker, has decided to cease truck assembly at its plant at Dunstable, while UK operations of Leyland Daf, the leading British truck maker, are in the balance.

The Daf parent company filed for protection from its creditors earlier this month, while Leyland Daf, its UK subsidiary, has collapsed into administrative receivership. Already the receivers have made redundant 30 per cent of Leyland Daf's 5,500-strong workforce. More job cuts appear inevitable and it is unclear how much of the Leyland Daf operations can be salvaged.

In the car industry Rover, Jaguar, Rolls-Royce Motor Cars and Ford of Britain have all been operating with substantial losses.

The Jaguar UK workforce has been sharply reduced to only 6,481 at the end of 1992 from 7,520 a year earlier and 11,661 at the end of 1990.

Ford of Europe is currently cutting another 10,000 jobs across Europe, with the UK bearing a significant part of the contraction. Ford's UK workforce had already fallen from a peak of 80,000 in early 1980 to only 33,000 by the end of 1992.

Suppliers are taking increasingly desperate steps to raise sales

In the motor dealer sector the Retail Motor Industry Federation said last month that a further 7 to 8 per cent of the UK's remaining 7,000 franchised motor dealers would close or be sold off this year. Last year 8 per cent closed or were sold off following 10 per cent in 1991.

As the recession deepened vehicle makers have been forced to undertake increasingly desperate measures to try to stimulate sales with an array of financial incentives and deep discounting, but often the actions have only served to increase losses.

As retail sales continued to fall last year, it was the fleet sector of the UK car market that sustained sales, and meant that the market finally remained unchanged from 1991 at 1.59m. The share of sales to fleets (defined as operators of 25 vehicles and above) accounted for 41.8 per cent of the UK new car market last year compared with 39.2 per cent a year earlier.

Opinions now differ as to how well the recovery in demand in recent months can be maintained.

Mr Ian McAllister, chairman of Ford of Britain, said that the January sales figures suggested that "a sustained recovery" in the market could well be under way.

The growth in sales in January – in contrast to previous months – was entirely due to a higher level of purchases by private customers rather than by company fleets, he said.

Professor Garel Rhys, professor of motor industry economics at Cardiff Business School, cautions against optimism based on the January sales figures, however.

"Last month's car figures were in fact dreadful", he says. "The previous January was very poor, being 11.7 per cent down on the 1990 figure. But since then the 10 per cent special car tax has been abolished. That should should have lifted last month's market by 12 per cent on its own.

"The extent to which the market is up shows the recession is still there and that people remain very cautious about buying," he said.

Sales of Japanese makes in January were 32.9 per cent higher than a year ago, which boosted their share to 11.2 per cent from 9.0 per cent a year earlier.

Sales of Japanese cars will be boosted this year by growing output from the new Toyota and Honda plants in the UK which opened late last year.

The first cars from Toyota's £700m plant at Burnaston near Derby were registered in January, and the pattern of the supply of Japanese cars to the UK is becoming increasingly complex.

Both Toyota and Honda are now shipping cars to the UK from their plants in the US, while Nissan and Suzuki also supply some vehicles to the UK from plants in Spain. Nissan, Toyota and Honda all have car assembly and engine plants in the UK.

Kevin Done

Richard Lapper on how customers are reacting to higher insurance rates

Risks must fall as costs rise

HIT BY heavy losses after rapid growth in the late 1980s, motor fleet insurers have increased premium rates and reduced the terms of cover available in the past two years.

But the rising cost of insurance is prompting many motor fleet managers to buy less insurance and look to other ways of reducing risks.

The cost of insurance – a £1m-plus item for many of the biggest fleets – is leading to boardroom interest in risk prevention.

"You were in a situation where premiums were simply chasing claims upwards. It was an expensive funding exercise," says Mr David Ney, risk management director at Willis Corroon in London, who says buying insurance for its motor fleet is one of the biggest "insurance spends" for many organisations.

While competition among insurers drove premium rates down in the late 1980s, the increased frequency of accidents and escalating court awards to accident victims pushed up the cost of claims.

Drivers of company cars are – on average – roughly twice as likely to have accidents as other drivers.

Accident frequency rates – which measure the number of accidents as a percentage of insured drivers each year – average between 50 and 70 per cent, compared with a rate of between 20 and 25 per cent for private motorists.

Some motor fleets have accident frequency rates as high as 120 per cent, says Mr Ney, who is critical of many company car drivers.

"It is really about attitude awareness. Everyone thinks it is someone else's problem," says Mr Ney.

In line with general trends in the motor insurance market, theft rates have also increased sharply in recent years.

Motor fleet premiums are much higher than those for private cars because policyholders do not obtain the benefit of no claims bonus and because cover is more comprehensive.

The recent deterioration in losses pushed up rates by an average of about 25 per cent in 1992, after more modest rises in 1990 and 1991. Fleets with particular poor safety records have found themselves paying much steeper increases.

Standard excesses – the part of any claim paid by the policyholder – have increased. Two years ago insurers would have charged excesses of £100 for each accidental damage claim. That amount is now typically £350, and is charged against claims for fire and theft, as well as accidental damage, says Mr Fred Whitworth, commercial motor manager at Eagle Star. Cover for damage to windscreens is frequently excluded.

Insurers are also more likely to introduce restrictions, refusing to pay for the loss of personal effects or stipulating that replacements for stolen stereos must be the manufacturer's model.

In addition, many policyholders are prepared to retain a substantial tranche of risks on their own books in exchange for lower premiums or simply buy less cover – fire, third party and theft, for example – for the same premiums.

Many policyholders are prepared to retain a substantial tranche of risks on their own books in exchange for lower premiums or simply buy less cover for the same premiums

Mr Whitworth says that 17 per cent of Eagle Star policyholders renewing in 1992 "traded down" in this way.

At the same time, insurers have become much keener to press policyholders to manage risks in order to reduce claims.

Because premium rates reflect claims experience over a three-year period, action taken by policyholders to reduce accidents will eventually result in lower claims.

According to Mr Chris Palmer, motor underwriting manager with Zurich Insurance, "the strategy is to move the debate away from price, towards better service standards to persuade policyholders to take a long-term view".

Increasingly, insurers are pressing motor fleet managers to administer their fleets more tightly, inspecting driving licences more frequently and monitoring the condition of cars more regularly, in order to weed out potential problems.

Most fleets are now restricting the number of family members who can drive a company car, in order to reduce the access of younger drivers, typically teenage sons and daughters, who are more prone to have accidents.

● Insurers are also beginning to press policyholders to select particular kinds of vehicles, especially those which are less prone to theft. Several fleets have stopped buying hot hatches, for example replacing GTi Volkswagens and Astra GTEs with Vauxhall Cavaliers.

● Insurers are also supplying better quality data to policyholders, making it easier for fleet managers to identify particularly poor or accident prone drivers. "You've got to supply ammunition to help the statistical departments," says Mr Palmer.

According to Mr David Voss, managing director of Velo, which provides a insurance management service for motor fleets, good information can allow fleet managers to pinpoint which regions and drivers are contributing most to insurance costs and enable them to vary charging within the organisations accordingly. "Suddenly the local manager, with one eye on his profit-related bonus, may take a different tone with his errant drivers," says Mr Voss.

● Although no insurer offers reduced premiums in return for the adoption of risk management measures, one company, Perth-based General Accident is prepared to subsidise the cost of driver improvement programmes for policyholders.

GA pays £40 of the £75-a-day fee charged by driving instructors for what it calls a "defensive driving" course. Instructors must be on GA's own approved list.

Opinions about the value of the scheme vary. Mr Ney is convinced of its value. "The problem is frequently the 40-year-olds who work 16-hour days under great stress. You have to knock away the common perceptions. Driver training is a very good way of targeting the issue."

COMMUNICATIONS TECHNOLOGY

Fewer headaches

IN LESS than a decade the mobile telephone has established itself as an effective business tool and a worthy addition to the company car. But over the next few years vehicle fleet managers will face the choice between a baffling array of new voice and data telecommunications services and equipment.

In Europe, liberalisation has fuelled the growth of mobile communications. Since the introduction of cellular radio services in Britain in 1985, the number of subscribers to the two national networks, Cellnet and Vodafone, has grown to around 1.4m – or almost a quarter of the total 5.8m users in Europe.

Most of these subscribers are business users, and an increasing proportion of them now use hand-portable telephones, most of which can be used in company cars with the addition of a car adapter kit.

Standard carphones and car adapter kits now come with "hands-free" operation and top of the range carphones also include voice-activated dialing, allowing totally hands-free use.

After the boom in new subscribers in the UK in the late 1980s, the last few years have seen slower growth. Plans for telepoint services have been curtailed while other services have so far failed to live up to expectations.

Nevertheless, the mobile communications market, in the UK and elsewhere in Europe, is still a fast-moving market with a new services just around the corner. In particular, across Europe digital cellular systems based on the pan-European GSM standard are currently being launched.

These premium-priced services are unlikely to replace the older analogue networks immediately. Indeed, it will be some time before full national networks are in place. However, for the business traveller in particular, they will eventually offer some key advantages.

Digital services will provide clearer, more reliable connections, which will also be much more secure from eavesdropping. In addition by the mid-1990s, because it is a Europe-wide standard, international travellers will be able to use their GSM phones anywhere in Europe.

In the UK both network operators have introduced new low-user tariff structures for their analogue services in the past six months and Hutchison Telecom has unveiled a one-way Telepoint service called Rabbit. In addition, customers will soon be able to opt for Mercury Personal Communications' local digital Personal Communications Network (PCN) service, due to be launched by the middle of this year alongside Vodafone's rival Micro Cell Network (MCN).

GSM systems may soon provide a worldwide standard in mobile data

Already some vehicle fleet operators are inheriting a haphazard collection of equipment, service contracts and billing systems built up over the years. Indeed, research shows that many corporate users do not know how many mobile phones they have, or how they are being used.

To address this problem, Mercury Communications Mobile Services, an independent service provider, now offers corporate customers a "free audit of mobile equipment" and then a "consolidation service." MCMS has done so across some customers with more than 300 vehicles using 20 or more different service providers. "We can take the headache away," says Mr Martin Bartholomew of MCMS.

Managing a consolidated fleet of mobile telephones this way can have other benefits, such as providing a single point of contact for the customer, itemised billing and monitored usage.

Aside from the basic cellular mobile services, many corporate customers have also signed up for the value-added services offered by network operators, such as Vodata's Recall voice messaging service or Cellnet's direct access service which provides a link between an office switchboard and the cellular network.

However, some large customers, including local government and utilities, have discovered that public access mobile radio, launched in the UK in 1988, can sometimes offer significant cost advantages over cellular. Customers share a radio infrastructure built and maintained by a network operator. Once they have bought or leased their handsets there is a subscription charge only; they do not pay any call charges.

Mobile data and fax transmission is another area where customer confusion is rife. There are mobile data services offered by the cellular operators, dedicated mobile data network operators, and data over private mobile radio networks.

Transmitting data over an analogue cellular system is far more difficult than over the "fixed wire" public telephone system.

One way to overcome the problem is to use a special cellular modem like the one available from Vodafone's mobile data service which claims several thousand users and 90 per cent of the UK market. This enables customers to transmit and receive error-free data over the cellular network which provides any standards conversion automatically.

The alternative is to use one of the dedicated mobile data services which were licensed in the UK in 1989. Hutchison Mobile Data and Ram Mobile Data Services both provide these, as does Paknet, another Vodafone subsidiary.

But an obvious disadvantage of dedicated mobile data services, including paging services, is that they can only handle data, and according to research, most corporate customers require both mobile voice and data.

Another problem facing mobile data customers is the lack of a worldwide standard. But this may soon be overcome in Europe with the digital GSM standard. These systems will be able handle mobile data traffic from facsimile machines or portable computers in vehicles at high speed and with comparative ease.

GSM telephones equipped with small LCD screens will also be able to receive messages – like pagers – bringing the long promised digital mobile office one step closer to reality.

Mobile telecommunications can also be used to cut the costs of distribution while improving customer service, vehicle security and monitoring.

Satellites are also likely to play a significant role in the future of corporate mobile communications. min the UK, Marconi introduced Star-Track last year to trace the position of vehicles. It can be used to detect and track stolen vehicles, monitor the state of a load or direct drivers to their destination.

Paul Taylor

Impact of environmental legislation

Curbs on noisy trucks

MOTOR VEHICLES have been the focus for environmental legislation since the early 1970s. But the most significant single event in the process was the coming into force at the start of this year of European Commission exhaust emission regulations which in effect make catalytic converters obligatory on petrol-engined passenger cars (and car-derived light commercial vehicles).

The fitting of a converter implies the use of a fuel injection system rather than a carburettor, and of unleaded fuel. For larger, purpose-designed, petrol-engined commercial vehicles such as the Ford Transit, the situation is still under review, though it is likely that these, too, will be subject to tighter emission controls before long.

These developments appear not to have forced up car prices as much as might have been expected, and there may be some unanticipated benefits from the fleet manager's point of view. Since the car manufacturer has to demonstrate compliance up to 50,000 miles, not only when the vehicle is new, exhaust systems which include catalytic converters are engineered to a higher standard and should last the fleet life of a vehicle without needing any kind of repair or replacement. Fuel injection systems, invariably now electronically controlled, maintain their accuracy of operation much better than carburettors and should need less attention – though when that is required, it may be expensive.

It remains to be seen what will be the effect of EC emission limits now being drawn up on heavy vehicles, which are almost without exception diesel-engined. Indeed, the whole question of limits on diesel-powered vehicles, and even on passenger cars, is less clear than for those with petrol engines.

Diesel engines are inherently clean in most respects but anxiety remains over particulate emissions and the limits which may be imposed on them. Current EC proposals fall well short of the drastic limits imposed in California, but any future European move, such as requiring vehicle exhaust systems to be fitted with particulate traps, could lead to significant increases in cost.

Apart from direct exhaust emission regulations, there looms the prospect of legislation to reduce carbon dioxide emissions by encouraging better fuel economy. In the US the approach has been to impose corporate average fleet economy regulations with penalties (for both manufacturer and buyer) for non-compliance. EC discussions have thus far leaned more towards the "carbon tax" concept. Either approach would encourage fleet operators, especially of passenger cars, to move down-market to smaller, lighter and more economical models.

With the advent of the single market, many new checks have been added to the schedule of the annual vehicle inspection – the "MoT test". These new checks, especially on exhaust emissions, are likely to cause many more elderly and high-mileage vehicles to fail the test, but they will have little impact on the fleet market because the tests will (as always) only be required when the vehicle is more than three years old.

Either approach would encourage fleet operators to move downmarket

One effect may be to set an even more decisive limit to the length of time for which fleets are prepared to operate vehicles; the effect on after-sales values of vehicles being sold out of fleets is harder to predict, though a higher test failure rate could increase demand for well-maintained and relatively young cars.

A less widely appreciated aspect of environmental legislation is that concerned with vehicle noise. The setting of limits in this area is complex, since the test conditions as well as the actual maximum noise level have to be carefully specified. The current EC limit for cars is 77dB(A) but significantly stricter limits already exist in some countries – notably Switzerland, which specifies 74dB(A), in other words half the EC level. As a result, there has been a need to redesign exhaust systems.

However, the severest effect of anti-noise legislation in the EC is likely to be on heavy goods vehicles. These have always produced much more noise than cars, but until recently their commercial importance, relatively small numbers and above all, the engineering difficulty and cost of achieving lower noise levels have argued against the imposition of severe limitations.

That situation now seems likely to change, with the authorities requiring far lower truck noise levels, regardless of technical difficulty and cost. Likely techniques include the de-rating of engines to reduce peak combustion pressure levels, and the "encasement" of power units within noise-insulators. If the limits are severe, noise-reducing measures in transmission and tyre design could also be required. Both first and operating costs may be notably increased in consequence.

There has been far less legislation concerning the more recently fashionable aspects of vehicle design, including the elimination of harmful materials and the need for easier and more complete recycling at the end of economic life. To a large extent, moves by the vehicle manufacturers have outrun the pace of potential legislation. Thus the latest vehicles have already completely or largely eliminated asbestos from brake and clutch linings, cadmium from protective finishes, mercury from certain electrical components, and of course CFCs from air-conditioning systems. These changes have been made at small cost to the consumer and often with the bonus of improved system performance.

Vehicle design for recycling is now being closely studied in engineering departments worldwide. The signs are that as with emission limits, some unlooked-for benefits may emerge for the fleet operator. Damage repair costs may be lower if body design takes ease of ultimate disassembly into account. Component costs themselves could be lower if, as seems likely, this design approach forces a switch to simpler panels and smoother shapes. The main counter-effect of such moves (and one which the vehicle manufacturers are trying very hard to overcome) is that cars may lose some of their visual attraction.

Jeff Daniels

DATABASES

Automating the hassle

IN A company where cars are a mere perk, the time and energy spent on them is hidden in overheads. But when the number of cars rises to 150 or so, managing a fleet becomes a full-time job for somebody.

This rule of thumb comes from an administration manager who currently runs 73 cars, among a staff of 120 or so. His main problem is to have enough detailed information not only to keep track of maintenance, but to avoid ruffling feathers in the dovecot when new cars are assigned out of pecking order. A database of some sort should be the ideal answer, but it is hardly worth it for what is, at present, only part of his job.

The 150 mark may also be the one at which a company considers "outsourcing" the job and giving it to experts whose accumulated wisdom might prove more cost-effective in the long run. There comes a point where a computerised system is worthwhile, through a contractor, in-house, or even using a combination of both.

Unfortunately, fleet management suffers from the same conundrum as any other application of information technology. One can know what is needed only when a system is installed, up and running. By then, it is often too late to change it or add in the extra "if only" dimension that would make all the difference.

Learning how to use the system, and having reliable support for it, are themselves hidden overheads. The purchase of any solution is an investment, the beginning of a long-term relationship, so the financial security of the supplier is as important as the functions of the system itself.

Of an estimated 250 different packages on the market, none does exactly the same job. The starting point has to be an analysis of who needs what information. "Need" is not the same as "want", but it is often the extras that prove valuable, so flexibility is important. Make a system too complex, and no-one will ever want to use it. Hide nuggets of valuable information in a two-inch thick report, and they will go into the bin with the dross.

In-house promotion of the system – simply telling people what information is, or might be, available is a must.

The database is a good starting point. General-purpose databases such as Informix, Oracle and Ingres have spawned specialist packages through value-added resellers, such as Oracle's Ocella. Generally, because of the database foundation, such packages are easily tailored and customised. So-called "fourth generation languages", 4GLs, take a similar approach, and products using these software tools should be more tolerant of individual users' quirks. The Progress language, for example, has been used to create NCR's Profleet, developed by Kalamazoo, and Towquest Pro-Lease.

One knows what is needed only when it is too late to change it

According to Mr Dinos Theophanus, a management consultant specialising in transportation at CMG, the very words "fleet management" are open to misuse. "Of the 250 or so packages, few have more than 10 installations." Even fewer manage the full range of functions. This makes it difficult for people trying to choose a solution, especially as changing financial circumstances might put different requirements to the fore.

"The recession has done two things. Companies have less to invest so they are hiring rather than buying, and it has increased competition, which has resulted in the cost of services coming down. It's a buyer's market, and people are looking for better choice, fancier facilities and value for money."

Often, those who contract out fleet management get IT services thrown in as part of the deal. "When you outsource, you get rid of the hassle, and part of that is the IT. Also, with an outsourced service you can police and control the supplier. A transport manager must define the service and know the requirements: some things may be luxuries, others necessities, and the budget will go only so far," he says.

Mr Theophanus describes a "pick and pay" approach to the levels of service available. Users can have monthly paper-based reports, or linked terminals at the user-company, a regular download of database information, or even EDI – electronic data interchange. There can be economies of scale. But while a company such as BRS can provide a cradle-to-grave service in terms of repairing a car and keeping it on the road, there are certain sorts of information a contract supplier cannot provide.

Most packages deal with processes relating to a particular vehicle: few, if any, keep track of individual users of the car. But in-house systems might also need to link with personnel, accounting and insurance applications.

The way round this is an in-house "extra", either a database or a bought-in package, of which only a limited number of modules are actually used. Mr Theophanus says the market for large-scale packages is shrinking, becoming limited to the lease management companies as in-house managers turn to outsourcing. In-house, people are relying on do-it-yourself efforts to provide extra information, usually with a small general-purpose database or other software.

One manager, for example, keeps track of fleet cars due for their MOTs with a screen he built within Lotus 1-2-3, a spreadsheet software tool he knows well. But, he admits, it's a clumsy solution of limited value and demands a lot of manual intervention. He also uses part of a cheap package, the Company Car Administration Kit from Emmerson Hill of Fareham which, at less than £50, provides form letters for maintenance management.

A proper database would bring up an automatic warning, allowing him to keep track of individual car history. Explanations of how high mileage is incurred would be valuable for decisions on replacements and on resale values.

Another manager's comment sums up why the flexibility of database software is essential. "Once the information is there, you think of all sorts of other ways it might prove useful."

Claire Gooding